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## AVIATION INFRASTRUCTURE - CARGO

*Boost in air cargo volumes  
to pre-pandemic levels a  
cause for cheer, even as  
FY2021 prospects for Indian  
Aviation Sector remain  
dampened*

**NOVEMBER 2020**



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## AIR CARGO VOLUME CONTRACTION EXPECTED AT 17-20% IN FY2021



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### Cargo traffic in India

- ❖ Exposed to global economic cycles
- ❖ International cargo contributes to 60-65% of total volumes

### Aircraft deployment strategies by airlines

- ❖ Increase in international cargo dedicated freighters
- ❖ Increase in domestic 'cargo-on-seats' aircraft
- ❖ Shift to 'cargo-on-bellies' as passenger aircraft traffic recovers
- ❖ Certain proportion of 'freighter' aircraft to be retained post COVID
- ❖ Increase in domestic airlines' focus on cargo business as passenger growth recovery slower

### ***Air cargo volume ramp-up has been faster than passenger traffic since April 2020***

- Air cargo volumes have been witnessing a faster recovery as compared to passenger and aircraft traffic since April 2020. While the contraction in the cargo volumes in H1 FY2021 is at 45% over the corresponding previous, the same in the passenger traffic and aircraft traffic movement is at 86% and 75% respectively in the same period. Further, the cargo volumes in September 2020 reached to 89% of pre-COVID levels (February 2020) when compared to passenger traffic at 29% and aircraft traffic at 44%. The faster recovery in the cargo volumes is because of the trade of the essential supplies primarily in the pharmaceutical, medical equipment and agricultural produce sectors along with the shifting of airlines to cargo on seats and dedicated freighters to meet demand while the inherent fear to travel during the pandemic amongst business and leisure travellers, major contributors to passenger traffic historically, has kept travel demand subdued.
- The steady ramp up in international cargo volumes to 143,814 tonnes in September 2020 from 39,960 tonnes in April 2020 is attributed largely to an increase in the share of cargo transported by international freighter aircraft for cargo movement to 60-70% from 40-45% pre-Covid (as per ICRA's interaction with players) with belly space remaining limited, as international commercial aircraft traffic is still restricted to flights operated under 18 air bubble arrangements, besides the permitted flights for relief/ evacuation.
- The domestic cargo volumes witnessed significant improvement to 94,598 tonnes in September 2020 from 7,280 tonnes in April 2020. The ramp up in domestic cargo transportation in aircraft bellies of commercial passenger flights aided volume growth. With the restrictions on passenger capacity, domestic airlines followed the 'cargo-on-seats' model (permitted by Ministry of Civil Aviation or MOCA) thereby utilising some aircraft of their grounded fleet for cargo operations. Thus, the growth in domestic cargo remains dependent on the 'cargo-on-seats' aircraft and on the passenger traffic recovery for available cargo belly space.

### ***Air cargo volume contraction expected at 17-20% YoY in FY2021***

- Despite a faster ramp-up, the total cargo volumes declined by 45% YoY in H1 FY2021 with slow recovery in passenger aircraft traffic leading to loss of the earlier available cargo belly space constraining cargo growth. Further, in April 2020 and in May 2020, the cargo volumes were low at 47,240 tonnes and 94,927 tonnes. In October 2020, the cargo volumes are likely to show significant improvement sequentially owing to the expected higher domestic air traffic movement due to the festival season. In FY2021, total cargo volumes are expected to decline by 17-20% in FY2021 with meaningful recovery in cargo volumes, expected only in FY2022. Further, the mass distribution of the Covid-19 vaccine in the country that needs faster temperature-controlled transportation would provide sizeable opportunity for air cargo industry and could help sharpen the growth curve.

## RECOVERY IN CARGO VOLUMES TO 85% OF PRE-COVID LEVELS, AFTER WITNESSING SIGNIFICANT CONTRACTION IN APRIL-MAY 2020

- Aircraft traffic movement contracted sharply in April 2020 and May 2020 in the backdrop of a nationwide lockdown and suspension of commercial aircraft, which recommenced from May 25, 2020. The total aircraft traffic declined by 75% YoY in H1 FY2021 - with international traffic at 78% YoY and domestic traffic at 74% YoY.
- The international aircraft is limited to the Vande Bharat rescue operation flights and bilateral 'Air bubble' agreements. An increase in international aircraft movement in September-October 2020 and some improvement in available cargo belly space for cargo along with share of cargo transported by international freighter aircraft for cargo movement to 60-70% as per ICRA's interaction with players (from 40-45% pre-Covid levels), has supported for an increase in the cargo volumes.
- There has been a sequential improvement in the international aircraft movement by 8% and cargo volumes by 12% in September 2020, reflecting a healthy pace of recovery. After a significant decline in April – May 2020, the cargo volumes reported a steady ramp up to 71% of previous year levels in August 2020 and 84% by September 2020 (domestic at 80% and international cargo at 86%).

Exhibit 1: Trends in Monthly Total Cargo Volumes

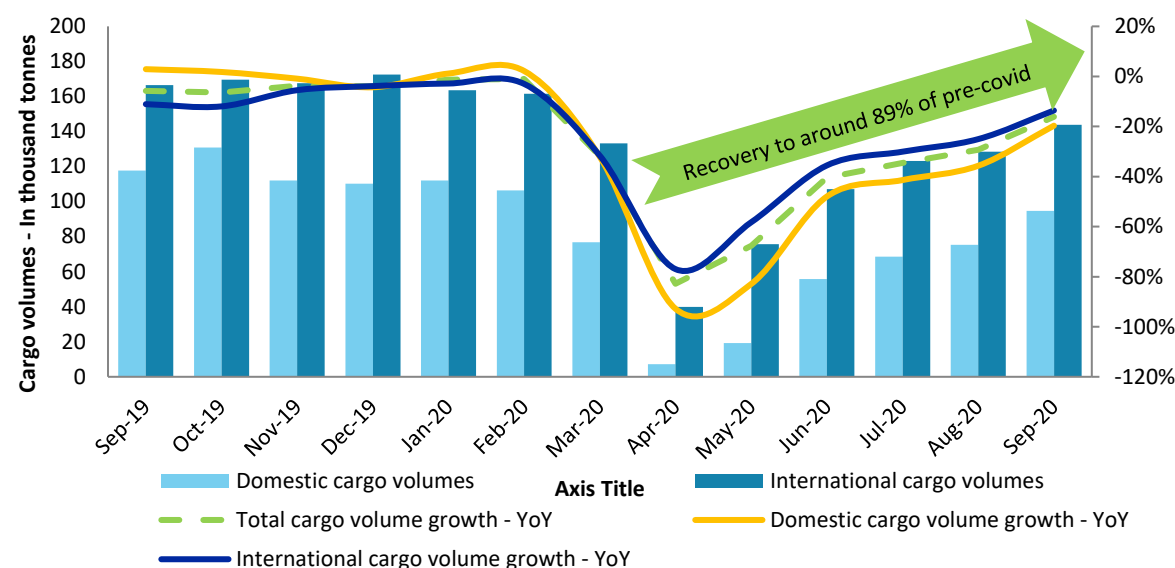


Exhibit 2: International Cargo Volumes Growth

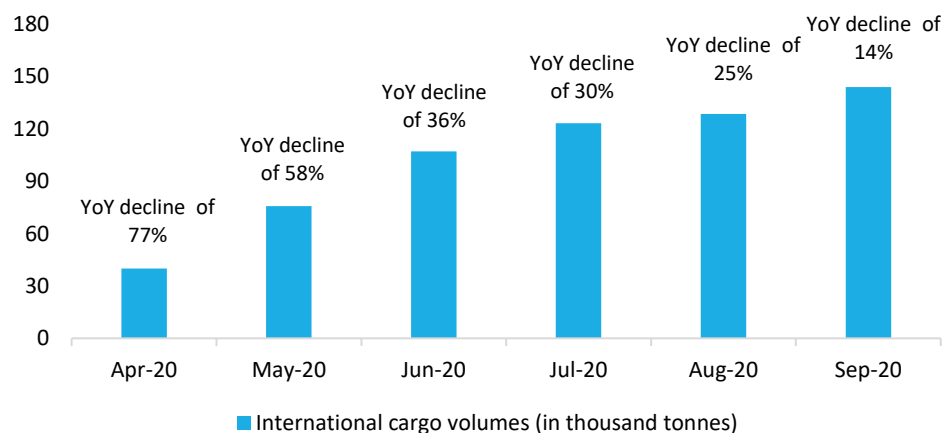
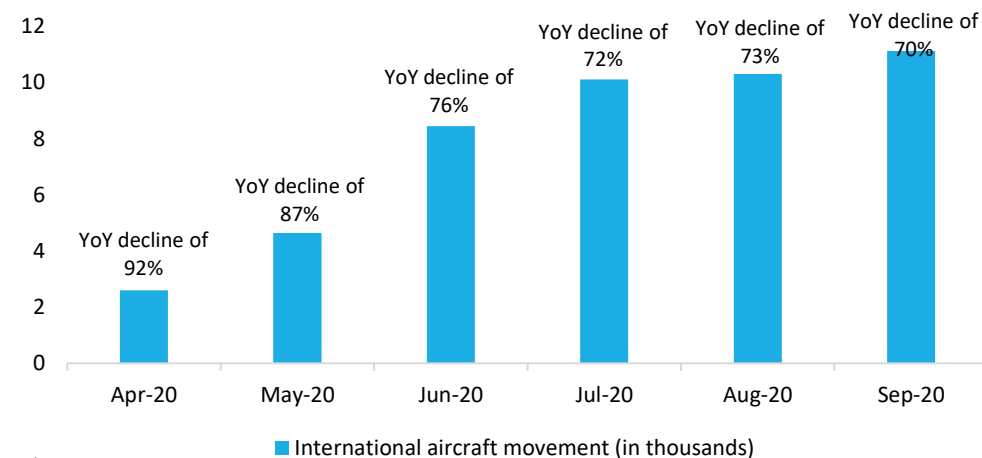


Exhibit 3: International Aircraft Growth



Source: AAI, ICRA research

## MOST MAJOR METRO CITIES WITNESSED FASTER RECOVERY - REACHING MORE THAN 90% OF PRE-COVID LEVELS

Airports in metro cities have contributed to around 90% of the overall cargo traffic over the last few years as metro cities are major centres of economic activities and enjoy better infrastructure and logistics facilities as compared to airports in non-metro cities. At metro airports, even the aircraft traffic movement is higher accounting for around 65% of total traffic. The cargo volumes at metro cities witnessed CAGR growth of 5.3% during FY2011-FY2019. However, the volumes contracted by 8.2% YoY owing to the decline in the aircraft traffic movement due to grounding of Jet Airways and the adverse impact of Covid-19 in Q4 FY2020. In H1 FY2021, the decline in the cargo volumes from the metro cities is at 44% YoY and that of non-metro cities at 55% YoY.

While the recovery has been faster in metros such as Delhi, Bangalore, Chennai and Hyderabad reaching closer (above 90%) to pre-Covid levels in September 2020, that of Mumbai and Kolkata remain constrained at 73% and 52% of September 2019 levels. It is to be noted that the recovery in the non-metros in September 2020 has reached to around 73% of September 2019 cargo volumes.

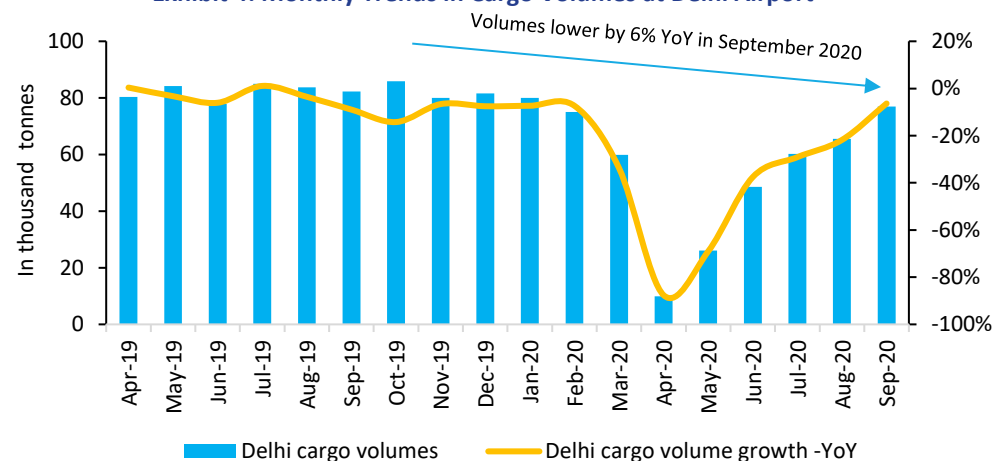
**Delhi Airport – in September 2020, reached 94% of the cargo volumes of the previous year**

- Delhi airport contributes ~29-30% of cargo volumes in the country, the largest in the country
- Consistent ramp up in the cargo volumes reaching to 76,991 tonnes in September 2020 from a low of 9,953 tonnes in April 2020. However, lower by 6.4% YoY
- Delhi airport witnessed record 2,366 freighters in September 2020 up from 1,850 freighters in June 2020.

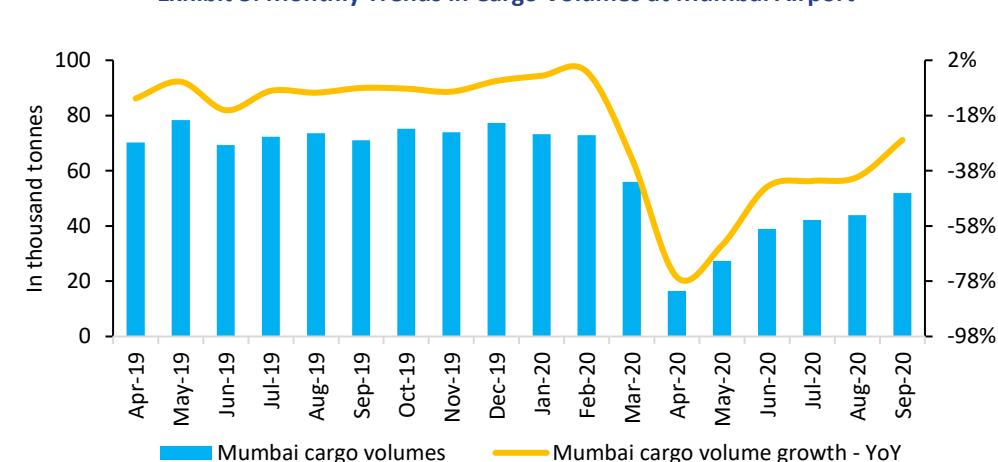
**Mumbai Airport – in September 2020, reached 73% of the cargo volumes of the previous year**

- Mumbai airport contributes ~24-26% of cargo volumes in the country
- Cargo volume growth at this airport was flat during June-August 2020 due to the cap on daily flights imposed to curtail spread of Covid-19 pandemic. Cargo volumes in August 2020 were around 60% of the previous year and improved to 73% in September 2020
- Volumes increased by 18% MoM to 51,977 tonnes in September 2020 with an increase in the domestic e-commerce volumes amidst festive season. However, volumes remain lower by 27% YoY

**Exhibit 4: Monthly Trends in Cargo Volumes at Delhi Airport**



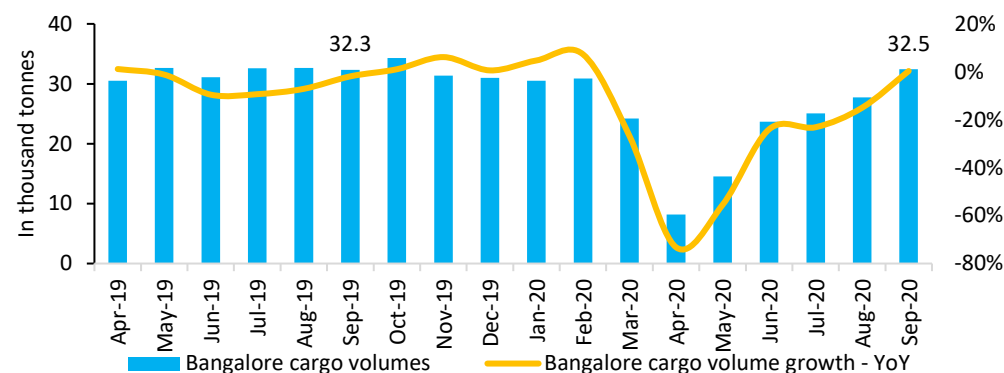
**Exhibit 5: Monthly Trends in Cargo Volumes at Mumbai Airport**



### **Bangalore Airport – reached pre-Covid levels in September 2020**

- Bangalore airport contributes ~11-14% of cargo volumes in the country
- Only airport to report cargo volumes in September 2020 at 32,449 tonnes, largely similar to that in the previous year while all others reported a decline
- The driver for the higher growth as compared to other metro cities has been increased exports of perishable goods particularly fruit produce also supported by growth in other segments such as readymade garments, engineering and pharma goods and medical supplies

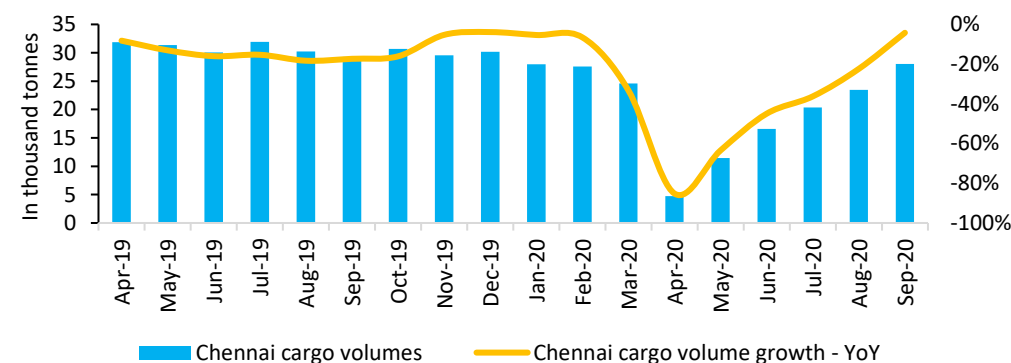
**Exhibit 6: Monthly Trends in Cargo Volumes at Bangalore Airport**



### **Chennai Airport – in September 2020, reached 96% of the cargo volumes of the previous year**

- Chennai airport contributes ~11% of total cargo volumes in the country
- Consistent ramp up in the cargo volumes reaching to 28,044 tonnes in September 2020 from a low of 4,720 tonnes in April 2020.
- Cargo volumes in September 2020 were around 96% of the previous year, reaching closer to pre-covid levels. However, lower by 4.2% YoY.

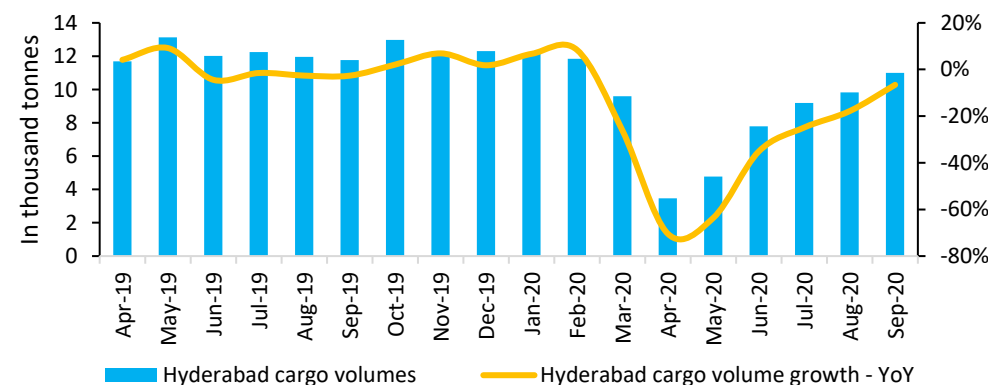
**Exhibit 7: Monthly Trends in Cargo Volumes at Chennai Airport**



### **Hyderabad Airport – in September 2020, reached 93% of the cargo volumes of the previous year**

- Hyderabad airport contributes ~4-5% of total cargo volumes in the country
- Consistent ramp up in the cargo volumes reaching to 10,990 tonnes in September 2020 from a low of 3,459 tonnes in April 2020. However, lower by 6.6% YoY.

**Exhibit 8: Monthly Trends in Cargo Volumes at Hyderabad Airport**



## WITH RECENT PRIVATISATION OF SIX AIRPORTS, CARGO VOLUMES AT AAI AIRPORTS TO DECLINE TO ~20% FROM ~27%

Exhibit 9: Trends in Cargo Volumes at Private\* and AAI Airports

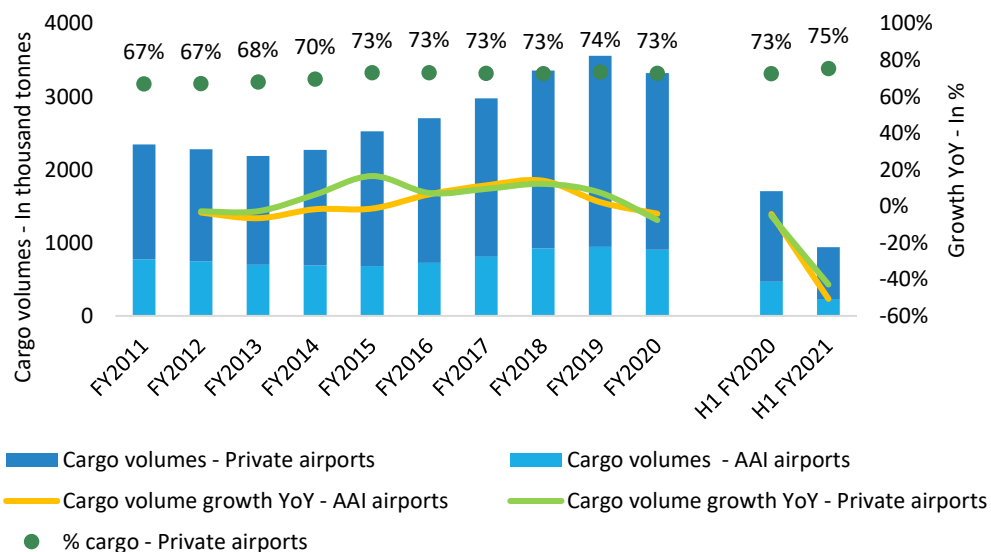
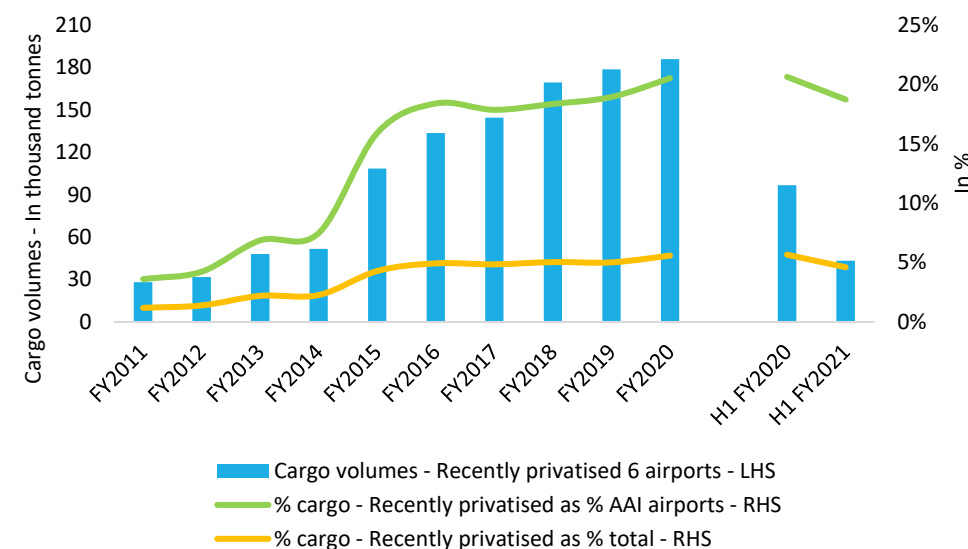


Exhibit 10: Trends in Cargo Volumes at Recently-Privatised Airports# and AAI Airports



Source: AAI, ICRA research

\*Private airports include Delhi, Mumbai, Bangalore, Hyderabad, Cochin, Nagpur and Kannur

\*Recently privatised airports include Mangalore, Ahmedabad, Jaipur, Lucknow, Guwahati and Trivandrum

### Private airports account for major chunk of cargo volumes and with increased privatisation, AAI's cargo volumes share is likely to decline

- The existing seven private airports account for around 73%-74% of the total cargo volumes and the remaining are accounted by the Airports Authority of India (AAI)-owned airports. This is because most of the private airports are at metros and witness higher international aircraft movement. In FY2020, private airports witnessed cargo volumes of 2,418,807 tonnes as against the AAI-owned airports of 905,223 tonnes.
- The recently privatised airports – Mangalore, Ahmedabad, Jaipur, Lucknow, Guwahati and Trivandrum, account for around 19%-21% of the cargo volumes at AAI airports and 5%-6% of total cargo volumes. Going forward, the private airports would account for around 78%-80% of total cargo volumes and AAI around 20%-22%. With the talks of further privatisation, the cargo volumes handled by the AAI airports is only expected to decline.

### Faster ramp-up of private airports since April 2020

- In H1 FY2021, the cargo volumes declined by 43% YoY at private airports and by 51% YoY at AAI-owned airport. The ramp-up of the private airports is faster reaching around 87% of previous year's volumes in September 2020 and that of AAI-owned airports at 77%.



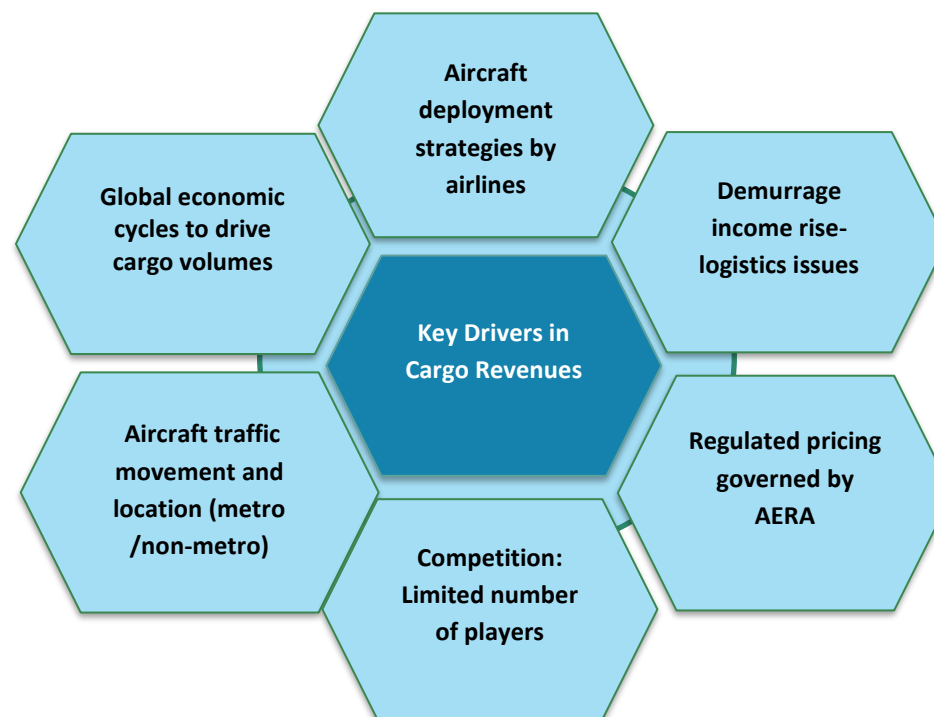
## CARGO GROUND-HANDLING - REVENUES DRIVEN BY VOLUMETRIC GROWTH - A FUNCTION OF GLOBAL ECONOMIC CYCLES, EVEN AS THEY OPERATE UNDER REGULATED TARIFFS

The cargo ground-handling services industry at major airports in India is restricted to limited number of players who enter into concession agreement with the respective airport operator. The risk of new entrants is fairly low in the near term as it is dependent on the cargo volumes handled at the airport. These players form tie-ups with airlines and C&F agents working through the airlines to use services of that cargo terminal operator.

The tariff for cargo handling operators is determined by the AERA at all major airports. During the lockdown in April 2020, exceptional demurrage income was witnessed by some cargo-handling operators as there were delays in transportation of goods from cargo terminals beyond the demurrage-free period due to restrictions in logistics during the lockdown to contain the pandemic, despite 50% waivers on charges by MOCA.

The cargo volumes have high concentration at metro airports due to the strategic importance of these cities for domestic and global trade with around 90% of cargo volumes at metro airports over the last few years and 97% of cargo volumes in the top 20 airports. More specifically, in FY2020, Delhi airport handled 29% of cargo traffic, followed by the Mumbai airport handling 26%, the Bangalore airport 11% and the Chennai airport 11%. Notably, the top-three privatised airports accounted for 66% of the cargo traffic in line with the high passenger aircraft traffic at these airports in FY2020.

**Exhibit 11: Drivers of Cargo Revenues**



Source: ICRA research

## 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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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.



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