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Aviation share in GDP to double in 5 yrs

Anindya Upadhyay, ET Bureau Jan 3, 2011, 06.29am IST

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NEW DELHI: The aviation industry is set to double its contribution to the country's gross domestic product (GDP) over the next five years as economic growth and rising disposable incomes encourage Indians to spend more on travel, experts say.

Commercial aviation, which is worth between \$10 billion and \$12 billion, contributed less than 1% to the country's GDP in the past five years.

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"With a potential \$80-100 billion investment opportunity, aviation industry's contribution to GDP may double in the next 5-7 years," said Amber Dubey, director (aerospace and defence) at global consultancy firm KPMG.

Experts say growth of the aviation industry is crucial for the economic growth as it has a multiplier effect on jobs creation.

India is expected to invest \$14 billion in 300-350 new aircraft over the next five years, according to Dinesh Keskar, president of Boeing India. Boeing is the world's largest manufacturer of commercial jetliners.

"According to an industry thumb-rule, 250-300 employees are required per aircraft," said Manish Chedda, managing director of consultancy firm Auctus Advisors. "If that many aircraft are going to come to India, you can simply multiply and see the number of jobs that the industry will add. Then there will be outsourced jobs in catering, ground handling and related areas. The multiplier effect is just too obvious."

The New Year is expected to see high passenger growth of over 15%. But the growth potential can be fully realised only if the industry manages its costs well.

"The industry, which is expected to post marginal losses at the net level in 2010-11, could post positive net profit margins of 2.5% in 2011-12," said Ajay Dsouza, head, Crisil Research, adding it will be crucial to see how the industry manages its costs and capacity.

Analysts say aviation turbine fuel or jet fuel prices will be crucial in cost management. A price above \$95 a barrel is bound to put pressure on the profit margins of airlines, according to them.

"The airline industry will also have to relook at its capital structure as the aggregate debt-equity ratio for three large private-owned airlines was as high as 5:1 in 2009-10," Dsouza said. "Airlines will have to device ways to reduce their debt-equity ratio. This will define things for the aviation industry."

Ankur Bhatia, executive director of travel solutions conglomerate Bird Group, said about 300 million people in India can afford air travel, but because of insufficient infrastructure the industry is able to cater to only 50 million at present.

"By 2030, the commercial aviation industry is expected to be worth \$350 billion, thus contributing 5% to India's GDP," said Kapil Kaul, South Asia CEO of aviation consultancy firm CAPA.

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