Premium

The budding IndiGo-Tata airlines duopoly and what it could mean for consumers

While it might be good news for IndiGo and the Tata airlines, a duopoly is certainly a cause of concern for consumers already contending with high airfares. We explain why.

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Between them, IndiGo and Tata group airlines (which includes Air India) now control a staggering 87.7 per cent of India's domestic civil aviation market. (Express photo, left, Reuters photo, right)

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With Go First grounded and hopes of Jet Airways's revival all but extinguished, India's domestic aviation market structure, for all practical purposes, has seemingly turned into a duopoly of market leader IndiGo and Tata group airlines – Air India, Vistara, and AIX Connect (Air Asia India) – for the foreseeable future. SpiceJet, which is grappling with fleet-related and financial troubles of its own, and the fledgling Akasa Air do not appear to be in a position currently to mount a formidable challenge.

Latest monthly domestic air traffic data released by the Directorate General of Civil Aviation (DGCA) showed that IndiGo has emerged as the biggest beneficiary of the suspension of Go First's operations, with the former's domestic market share with respect to passengers carried jumping to 61.4 per cent in May from 57.5 per cent in April.

Airlines	Domestic Market Share (%) in April	Domestic Market Share (%) in May

IndiGo	57.5	61.4
Air India (Tata)	8.6	9.4
Vistara (Tata)	8.7	9
AIX Connect (Tata)	7.6	7.9
SpiceJet	5.8	5.4
Akasa Air	4	4.8
Go First	6.4	0.4*

**Go First operated flights on just two days in May. (Source: DGCA)*

The three Tata group carriers saw a cumulative market share rise of 1.4 percentage points over April to 26.3 per cent in May. Akasa Air, too, registered a 0.8 percentage point growth in market share to 4.8 per cent. SpiceJet's market share, however, contracted to 5.4 per cent in May from April's 5.8 per cent. Go First, which had a market share of 6.4 per cent in April, has not taken to the skies since May 3 – after the Wadia group airline voluntarily filed for insolvency.

Between them, IndiGo and Tata group airlines now control a staggering 87.7 per cent of India's domestic civil aviation market – the third-largest globally and growing rapidly. With an eye on future growth, both airline groups have lined up massive fleet expansion and modernisation plans, with the latest announcement coming last week from the Paris Air Show where **IndiGo ordered 500 Airbus jets – the biggest-ever aircraft order** in the history of commercial aviation.

With this, IndiGo has close to 1,000 aircraft on order from Airbus, while the Air India group has ordered 470 Airbus and Boeing aircraft, with an option to scale up the order by another 370 planes. Akasa Air currently has 57 aircraft on order, although the young airline has said that it will be placing a "triple-digit" aircraft order later this year. However, with aircraft deliveries usually spread over multiple years, it could take a while for Akasa Air to stand up to the two already large and still growing airline groups.

While it might be good news for IndiGo and the Tata airlines, a duopoly is certainly a cause of concern for consumers already contending with high airfares. From the consumers' perspective, a domestic aviation sector with multiple strong and financially sound airlines offering numerous choices to flyers is most desirable. But the market does not appear to be anywhere close to that.

What is a duopoly and is it bad for consumers?

A duopoly exists when two players dominate the market for a product or a service. Generally, competition is seen as directly proportional to consumer interest, which means that higher the competition, the better it is for consumers. Going by that logic, a duopoly is theoretically not a very desirable proposition for consumers.

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As per basic economic theory, higher competition usually results in lower prices, higher efficiencies, better products and services, and market expansion, among other things. In a duopoly, there is a strong likelihood of relatively higher prices and fewer choices for consumers, and suboptimal innovation and market growth. If allowed to consolidate and strengthen, duopolies can also act as huge impediments for new entrants, which again means lower competition and choices for consumers on a sustained basis.

Duopoly in India's domestic aviation market – the concerns

The privatisation of Air India and the ongoing consolidation of airlines under the Tata ownership is resulting in the formation of an airline group that appears strong in intent as well as financials. The fact that the top two players are financially stable and growth-oriented is a huge positive for India's aviation sector, which has seen a number of airlines shut shop due to financial stress.

However, while there is certainly a need for airlines or airline groups with strong balance sheets and deep pockets, more competition is also required from a market development perspective.

India is a highly price-sensitive aviation market that has seen cut-throat competition between carriers over the past few years. A duopolistic structure puts more pricing power in the hands of the dominant airlines. From the sector's perspective, the one positive here could be that it might limit unsustainable cut-throat competition and predatory pricing at an overall level, even though it might continue to be a reality on certain routes where other carriers have a strong presence.

But it could also lead to a scenario in which the leading airlines just do not have enough incentive to compete enough on pricing and service quality. Or worse, they might be seduced into a mutually beneficial tacit understanding on airfare levels. To be sure, no proof of cartelisation among Indian carriers was found in a multi-year probe by the Competition Commission of India a few years back. But that cannot be a ground to rule out the possibility in the future as well.

Airfares are already heated up in India. While they had started firming up last year itself as travel demand rebounded after the Covid pandemic subsided, this year's summer travel season has seen an unusually high spike in ticket prices, particularly in some sectors. Suspension of Go First flights, combined with other factors like surging travel demand and capacity constraints, have forced flyers to pay through their noses.

The total count of domestic flyers in May stood at a record high of 1.32 crore, up 15.2 per cent year-on-year. And the market is only expected to expand in the years to come. Sustainable competition among multiple airlines is seen as a key ingredient for charting inclusive and sustained growth in India's civil aviation market.

Inadequate competition automatically leads to high dependencies on the foremost airlines and a major disruption in operations of one of the dominant carriers could potentially bring the market to its knees.

The variables

How IndiGo and the Tata airlines approach the market and the competition between them will play a critical role in the shape India's civil aviation sector takes going forward. An approach of intense competition to fight each other for more market share would augur well for consumers on the counts of affordability and service quality. The opposite approach or tacit understanding and mutual benefit? Not so much.

How Akasa Air and SpiceJet approach the market and competition from here will certainly be a factor. If, somehow, they are able to quickly add capacity, rapidly expand their networks, and compete effectively with the two big players on pricing and product offering, they could expand their market share, although that process could be rather long-drawn.

Entry of another carrier backed by a solid conglomerate or deep-pocketed investors could also alter the contours of India's aviation market. The example of Akasa Air is for all to see. In less than a year, the carrier has been able to expand its market share from nil to almost 5 per cent and is operating a fleet of 19 aircraft. A few other such ventures could potentially alter the market.

A lot will also depend on competition from other modes of transport, like roads and railways, and to some extent, it could keep airfares from overheating too much. Being a price-sensitive market, the movement of passengers to other transportation modes when airfares shoot up can be swift in India. Also, with fast-paced highway development and modernisation of railway infrastructure, short- and medium-haul air travel routes in particular could face some heat. Factors like affordability, duration, and comfort of travel would most certainly be the deciding factors.

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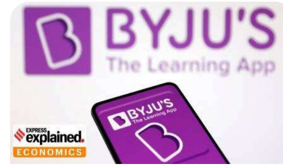

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Government policies and regulations would certainly be critical. Moves by the government that significantly lower entry barriers for new carriers, attract more investment in existing carriers and lead to creation of new ones, incentivise the sector's growth, and make airfares more transparent would be welcome from the point of view of consumers, as such measures are bound to result in more competition in the domestic aviation market.

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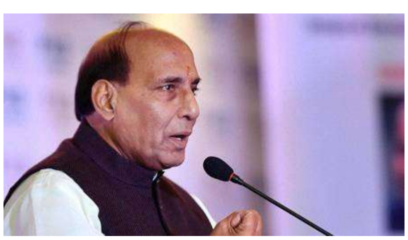

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