Nowhere to go, Covid air pocket leaves flyers with forced vouchers

Both Indian and foreign airlines are refusing to refund cash

ARINDAM MAJUMDER
New Delhi, 5 April

Visiting California was on Amrita's mind since she got her first job in mid-2019. She saved and planned a Vegas trip. But with the coronavirus pandemic forcing India to cancel international flights, the ₹42,500 she spent on the tickets, booked in December for travel in April, is stuck.

Etihad Airlines has refused to provide her a refund and has given her a voucher of equivalent amount that can be used till July 31 next year. But with the virus spread becoming severe in the US, Amrita is unsure of any international travel in the near future. She now spends 10 minutes daily trying to get a refund. "I call them. They're robotic, keep repeating the same information, that Etihad has decided not to give refunds and offer a voucher," said Amrita, 25. "They wouldn't deviate from the repetition. They just say I could log a complaint but that wouldn't get me a refund."

CORONAVIRUS PANDEMIC

Not just the international airlines, it's the same story with the domestic carriers. Indian airlines, too, are refusing to refund cash and are giving credit that can be used later.

As airlines pocket millions owed to customers, people are questioning the objective of spending taxpayer's money to bail out these airlines while they hold the same taxpayers at ransom.

Indian civil aviation regulation mandates airlines to offer passengers a refund if a flight is cancelled, with exceptions for circumstances like bad weather. "If you are informed of the flight cancellation less than two weeks before but up to 24 hours of the scheduled departure time, the airline must offer another flight or refund the ticket amount, as acceptable by you," the Ministry of Civil Aviation's passenger charter states.

"That happens during normal times... but lockdowns across countries have dissolved schedules for weeks, forcing airlines to park their fleets and guarding their cash as revenue withers. If forced to give refunds now, one or more than one airline will be out of business," an airline executive said.

The official's comment echoes the message airline trade group International Air Transport Association (IATA) sent on Friday, urging governments to relax regulations on cancellation refunds.

"We believe the best answer for both airlines and travel agents is for regulators to ease requirements for cash refunds and allow airlines to issue vouchers instead. This would remove the pressure on agents to issue cash refunds at a time when airlines are making decisions based on their own need to preserve cash," IATA said.

Their customers though are taking to social media platforms to complain they can't get their money back.

The Indian civil aviation regulator has also been flooded with complaints from passengers but the DGCA has not yet taken a call, fearing that mandating airlines for cash refunds will push the already stretched companies into bankruptcy.

"We are concerned about the situation. But, we have to take a balanced view regarding this, as we have to save both passengers and airlines," a DGCA official said, adding India has still not agreed to IATA's suggestion for vouchers instead of cash refunds.

A second airline executive, who also has ₹25,000 pending with British Airways for a family vacation he had planned for May, said the best idea would be to give airlines a longer window to return the money. "Give a window of one year to reschedule. If the passenger still doesn't, the money can be refunded after a year. Till then, the situation will probably improve, and airlines will have some cash buffer."

But many, like Amrita, want their refunds back "as soon as possible". Many want it back due to the same reason airlines want to keep the money — uncertain times.

TROUBLED TIMES
Regulator's decision on flight cancellation

European Union*	UNITED STATES	AUSTRALIA
Airlines must do a cash refund or provide voucher on flyer's choice	Airlines are obligated to refund cash	Cash voucher allowed

* European countries Germany and France are framing their own law like asking airlines to give cash vouchers

Source: Regulators

Early funding into start-ups may hit a stumbling block

SAI ISHWAR & PEERZADA ABRAR
Mumbai/Bengaluru, 5 April

Even though the spread of Covid-19 and the subsequent lockdown have severely affected the start-up ecosystem in the country, experts believe many of them, especially those in early stages, are going to find it extremely difficult to get access to funds even after the situation improves. Venture capital (VC) investors, they said, would prefer to only invest in their existing portfolio to protect their investments than putting any fresh money into new ideas.

"Is the situation getting better in India, is it stabilising or getting worse? VCs or funds would see an opportunity to get in and get in early. But if the situation is getting worse, then for early-stage ideas, I think you'll see a longer cycle (for raising money)," said Prashant Mehta, partner at VC firm Lightbox. "However, strong founders with great (entrepreneurial) backgrounds and economics will not have trouble raising money," he said.

This comes as seed investments in India during the January-March quarter, was at the lowest level in five quarters.

According to data compiled by Venture Intelligence, seed-stage funding dropped 28 per cent to $48 million in the quarter compared to the same period last year.

The number of deals, too, declined to 40 from 70 in the year-ago period.

According to Vishesh Rajaram, co-founder of Bengaluru-based VC firm Speciale Invest, historical data suggests that seed-stage funding environment would drop the most, though they would be the first one to bounce back. "A lot of our (portfolio) companies are assuming to low revenue for the next 6-9 months and projecting their road map for the next 18-24 months."

According to experts, venture capital investors are going to monitor the whole situation closely over the next 1–3 months before making any decision on investment

Rajaram, whose fund largely focuses on business-to-business (B2B) deep-tech start-ups, was referring a Redpoint Venture partner Thomasz Tunguz's study, which showed that early-stage funding suffered a huge fall during the global financial crisis in 2008-09.

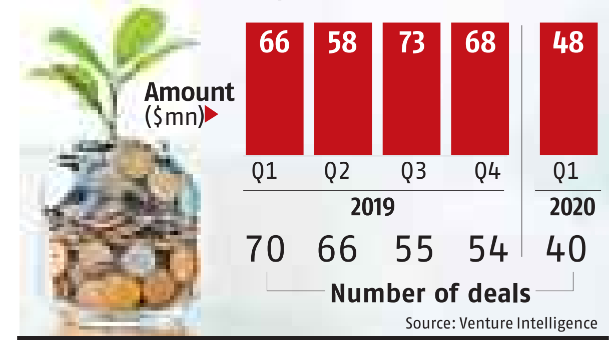
Seed stage funding, however, was the fastest to recover among all stages.

According to experts, venture capital investors are going to monitor the whole situation closely over the next 1-3 months before making any decision on investment.

"Investment firms will now have the mindset to focus on protecting (their) existing investments and helping them sail through the next couple of quarters rather than looking at new investments, especially in unknown sectors," said Sreedhar Prasad, an independent consultant and a former venture partner at Kalaari Capital.

The overall VC investment has also taken a hit in the March quarter of 2020. During this period, VC investments fell 22 per cent to $1.74 billion in value terms when compared with the same period last year, the Venture Intelligence data showed.

QUICK VIEW
Seed investments in India (Q1 2020)



Brokerages prefer realty firms with annuity assets

RAGHAVENDRA KAMATH
Mumbai, 5 April

Brokerages are recommending stocks of real estate companies with annuity assets because of stable cash flows. They believe demand for office properties will bounce back faster than that of other segments.

"While slowing global and domestic economies do not augur well for India's property market, we believe annuity businesses, which provide stable and sticky cash flow, will show more endurance during these tough times," a recent by global brokerage firm CLSA said.

AT A GLANCE
Total office stock

33.7 sq ft DLF (developed)*
10.03mn sq. ft. Prestige Estates Projects
1.76mn sq. ft. Phoenix Mills
3.50mn sq. ft. Brigade Enterprises

* includes those by DCCDL where DLF holds 60% Source: Nirmal Bang, companies

CLSA said during the previous global slowdown of 2008-2009, the country's office demand dipped in the short term (only in 2009), but then rose to higher levels driven by increased global offshoring. It said the highest number of global capability centres were added during 2005-2010.

It argued that the country's favourable cost economics (80 per cent cheaper than the US) and talent pool (second largest number of STEM graduates globally), remain a key driver of office demand. STEM means science, technology, engineering and mathematics. At beaten down valuations, annuity developers offer favourable risk-reward, it said. DLF, Prestige Estates, Phoenix Mills and others have large office properties. DLF, the country's largest listed developer, has completed office assets of 33.7 mn sq. ft. This included those by its rental arm DLF Cyber City Developers or DCCDL. DCCDL also has 6.6 mn sq. ft of office under development.

Adhidev Chattopadhyay, research analyst at ICICI Securities, has said the portfolio of Embassy Office Parks REIT is resilient when there is a risk to medium term demand for office spaces in the country.

Auto dealers fear heavy losses with BS-IV inventory stuck due to Covid

T E NARASIMHAN
Chennai, 5 April

Automobile dealers fear losing thousands of crores as they have not been able to sell a huge chunk of the BS-IV stocks due to the lockdown. They said the 10-day relaxation given by the Supreme Court (SC) on March 27 won't help their situation.

Federation of Automobile Dealers Association (FADA) said that the VahanPortal, used for vehicle registrations, was also is disabled and if it was not opened, dealers would face huge losses as they will not be able to liquidate BS-IV stocks.

The dealers can only sell BS-IV inventory till April 24, under the current situation. The SC had said the relaxation was not for the Delhi-NCR region, making dealers of the area particularly tense.

CARE Ratings has said while the industry players were looking for a three-month extension, till June 30, the 10-day extension won't help the industry.

The buying sentiment, after the lockdown period is lifted, is likely to be low and customers will be cautious in spending, particularly on luxury/big-ticket items.

"Even if the pandemic is curtailed, consumer sentiment is expected to be unfavourable and demand is expected to remain muted during H1FY21, led by fluctuating and uncertain economic conditions," said a CARE Ratings report on the impact of Covid-19.

BS-IV inventory can only be sold till April 24, except in the Delhi-NCR region

With the spread of the virus and at request of Siam (Society of Indian Automobile Manufacturers) and ACMA (Auto Component Manufacturers Association of India), most of the original equipment manufacturers and auto component players have initiated work from home for its non-manufacturing work staff and have announced temporary shutdowns of manufacturing units. Also, the two main auto clusters in India, Pune and Gurugram-Dharuhera have been completely shut.

FADA said that the industry is sitting on an inventory of 15,000 passenger cars, 12,000 commercial vehicles and 700,000 two-wheelers due to the overall slowdown in the economy followed by the cautious approach of consumers due to the pandemic.

The two-wheeler industry is left with BS-IV inventory worth ₹4,600 crore, while dealers are left with an approximate inventory of 835,000 units. The Siam has already estimated a minimum loss of around ₹2,300 crore per day.

Toyota discontinues sale of Etios, Corolla Altis in India

Toyota has stopped sale of Etios range as well as Corolla Altis in India as it looks to free up production capacity at its plant to bring in new products with better technologies. Toyota Kirloskar Motor (TKM), the joint venture between Japanese auto major Toyota and Kirloskar Group, had introduced Etios sedan in 2010, followed by hatch version Etios Liva in 2011. The company sold a total of 448,000 Etios series vehicles in the domestic market, and exported 131,000 units to other markets. Similarly, it sold close to 116,000 units of Corolla Altis in India since its launch in 2003. "March 2020 witnessed the last batch production of the Etios series as well as the Corolla Altis, bringing an end to the iconic journeys both the models have enjoyed in India," TKM Senior Vice-President – Sales and Service Naveen Soni said. PTI

Centre may consider allowing flight ops in staggered manner

The government may consider allowing flight operations in a staggered manner after the 21-day nationwide lockdown ends on April 14, officials said on Sunday.

Except Air India, all other airlines have been taking bookings for commercial passenger services from April 15.

Officials said the government may consider allowing operations of passenger flights from April 15 in a staggered manner, at the same time suggesting that flights may not be allowed to operate on all sectors.

Reacting to reports on likely resumption of flights, Civil Aviation Minister Hardeep Singh Puri called them "mere speculation".

He referred to a tweet by him on April 2 stating that a decision on resumption of flights after the end of the lockdown period remains to be taken.

India suspended domestic and international commercial passenger flight operations from midnight on March 24 for 21 days in sync with the nation-wide lockdown. However, cargo flights, medical evacuation flights, offshore helicopter operations and flights permitted on special ground by the aviation regulator DGCA were allowed to operate during the period. PTI

Pressure on steel makers is rising

Care Ratings says the performance of domestic steel makers is likely to be impacted due to Covid-19 and lockdown

UJJVAL JAUHARI
New Delhi, 5 April

The outlook for domestic steel prices, which has largely remained firm until the third week of March, now appears bleak.

Domestic steel prices, which had been trading at a premium to international prices, will face pressure as the lockdown is leading to build up of inventories.

Care Ratings says the performance of domestic steel makers is likely to be impacted in Q1FY21 because of the Covid-19 pandemic and the 21-day nationwide lockdown.

Just a few days before the lockdown, steel prices in March had corrected merely 2 per cent, while those in the Far East countries had cooled off by 6 per cent on an average. This had already led to domestic prices trading at 2 per cent premium to the landed price of steel from Far East countries, according to analysts' data. Global prices have softened further since then.

On April 3, the free-on-board China hot-rolled coil (HRC) prices on the London Metal Exchange (LME) were another 4 per cent lower as compared to prices on March 23.

As customers negotiate and renew contracts, it will soon reflect in revenues of steel companies. Even as this was putting pressure on pricing, the impact of lockdown on demand and rise in inventories are likely to put further pressure on domestic steel prices.

The impact on performance will not only be led by demand loss and realisations, but also pressure on margins. Profit margins are expected to fall, led by higher input prices and weaker steel pricing. According to analysts, the aggressive bidding in mine auctions in Odisha will keep iron ore costs high in the near term. The normalising situation in China means that Chinese demand for iron ore and coal will start rising, thereby keeping input prices steady. Thus, while realisations take a hit, pressure on margins may intensify.

The start of production in China would also mean higher Chinese exports. China has recently increased VAT rebate on exports from 9 per cent to 13 per cent. This would also mean reduced opportunities for Indian exporters.

Manufacturers as JSW Steel, which have exposure to exports, may feel the heat not only in Asia but in Europe, too. Further, with rising inventories and higher input costs, steel makers may see impact on their working capital requirements as well.

Not surprising, analysts at Emkay Global say they expect steel margins to contract sharply in Q1FY21 and continue at the same levels until Q2FY21 given the onset of monsoons, which is traditionally a soft period.

Analysts have been generally cutting target prices for Tata Steel, JSW Steel, Jindal Steel & Power, even as the stocks trade near their 52-week lows.