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INDIA TRAFFIC ON THE RISE

BY VIJAY BATHIJA AND KHALED AL-EISAWI,
ASCEND CONTRIBUTORS

Several factors, including global outsourcing, expatriate travel and the growing local economy are creating a boom in travel to and from India.



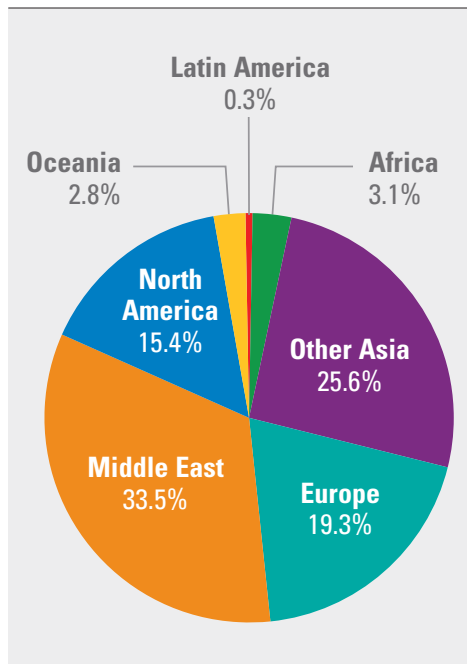
During the last few years, India has been one of the fastest-growing air travel markets. With a total population base of greater than 1 billion people, India represents a huge potential market. Even though it is known as a developing country, India has a 300-million-strong middle class that travels frequently by air domestically and abroad. While domestic traffic has taken off recently, India also has strong natural international traffic — more than 25 million people of Indian origin live in other parts of the world, including the Middle East, the United Kingdom and the United States. In addition to expatriate travel, business travel has increased, resulting in strong overall growth in travel to and from India.

International traffic in and out of the country is currently estimated at 23.5 million passengers per year, which has been increasing steadily for the past few years, with 2005 being a strong growth year — increasing by almost 17 percent. With liberalization of the air transport industry, this trend is expected to continue. Based on the International Air Transport Association growth rates, international traffic to and from India is expected to increase to 33.4 million passengers by 2010.

The main components of traffic to India include:

- **Expatriate travel** — About 25 million people of Indian origin who live abroad provide a strong ethnic travel market attractive to airlines. November through March, which is a mild winter season in India, is the strongest season for travel to India. Summer holiday season shows another seasonal peak due to vacation travel.
- **Global sourcing** — The trend toward global sourcing has increased interest in India because it has a large base of skilled, English-speaking workers who are attractive to multinational companies. The trend started in the early '90s with call centers. India has now become a hub for software development, and airlines are catering to the market with direct services to development hubs such as Bangalore in southern India.
- **Student travel** — Each year, between August and September, thousands of students leave India to study at western universities. This constitutes a strong seasonal market out of India. During summer breaks, some of this traffic returns to India for vacation, adding inbound traffic.
- **Growing economy** — India has been on a strong growth path for the last few years, thanks to liberalization. Indian gross domestic product is growing at an average rate of 7 percent and is expected to continue at this rate for the next few years. As incomes increase, resident Indians have more disposable money and have started taking holidays abroad.

Regional Breakdown of International Traffic to/from India



The Middle East, largely due to Indian nationals working throughout the region, represents the largest travel market for India. But other regions, such as North America and Europe, are growing rapidly as India liberalizes its air transport industry.

Traffic Breakdown by Region

The Middle East is the largest single regional market out of India, owing mainly to migrant labor from India working in the Middle East. This market constitutes 33 percent of total international traffic for India. Air India, Indian Airlines, Gulf Air and Emirates carry the largest amount of traffic between India and the Middle East.

Europe is India's second-largest market — 19 percent of the total — with the United Kingdom constituting the bulk of it. The United Kingdom has strong historical links with India. Many European points, such as Frankfurt, Germany, and Paris, France, are major gateways for traffic beyond destinations such as the United States.

North America represents 15 percent of international traffic to and from India — the largest international growth market from the United States. About 1.4 million people of Indian origin live in the United States. India is also the largest source of foreign students in U.S. universities. In addition, growing business links, particularly the global sourcing market, has created increased business travel to India.

How Airlines are Responding

As the market continues to expand, both Indian and foreign carriers are responding aggressively to market growth. Indian carriers have taken the lead by expanding domestic and international services. At the Le Bourget Airshow last year, Indian carriers ordered 190 new jets — the largest total for any country and almost 9 percent of the world's orders for



Many native Indians travel abroad to attend college at western universities, contributing to a rush in outbound traffic during August and September and a heavy increase of inbound traffic in May and June.

Photo by S. Gopakumar/The Hindu

HIGHlight

Based on the International Air Transport Association growth rates, international traffic to and from India is expected to increase to 33.4 million passengers by 2010.

new jets in 2005. Growth in capacity last year was particularly remarkable due to increased liberalization. This trend is likely to continue in the next few years if aircraft orders are any indication.

Air Sahara and its new owner Jet Airways are the largest private carriers that have recently started serving international destinations. State-owned Air India and Indian Airlines are not far behind. Air India is transforming itself with a large order for long-range jets for the first time in 10 years.

International carriers are also moving rapidly into the growing market. With the advent of super-long-range jets such as the 777-200ER, non-stop services between India and the United States have become possible. American Airlines and Continental Airlines were the first carriers to take advantage. Continental Airlines started non-stop service between Delhi, India, and Newark,

New Jersey, in October. American Airlines began non-stop service from Chicago, Illinois, to Delhi in November. Air India, which, so far has had the largest share of the U.S.-India market, is contemplating non-stop service to U.S. destinations to maintain its share. And to cater to the growing information technology business, Delta Air Lines announced new service to Chennai, India, via its European gateways.

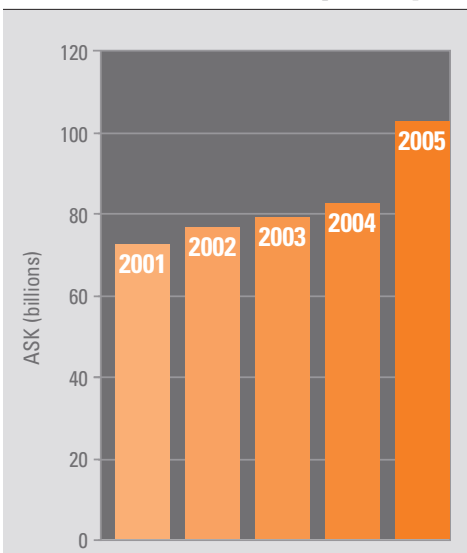
Liberalization of bilateral agreements created opportunities for growth from London, one of the largest and most constrained markets from India. Recent bilateral agreements increased capacity by more than 100 percent between the United Kingdom and India. Taking advantage of this, Virgin Atlantic and British Airways announced increases in service to India last year. Air Sahara became the second private carrier after Jet Airways to announce service from India to London.

Previously, Air India was the only Indian carrier that served the market.

The Indian market has a strong growth potential given the large population base and growing income and economy. This provides growth opportunities for airlines serving the market. Airlines are taking these opportunities into account as the growth during the last year indicates. And this is just the beginning. **F**

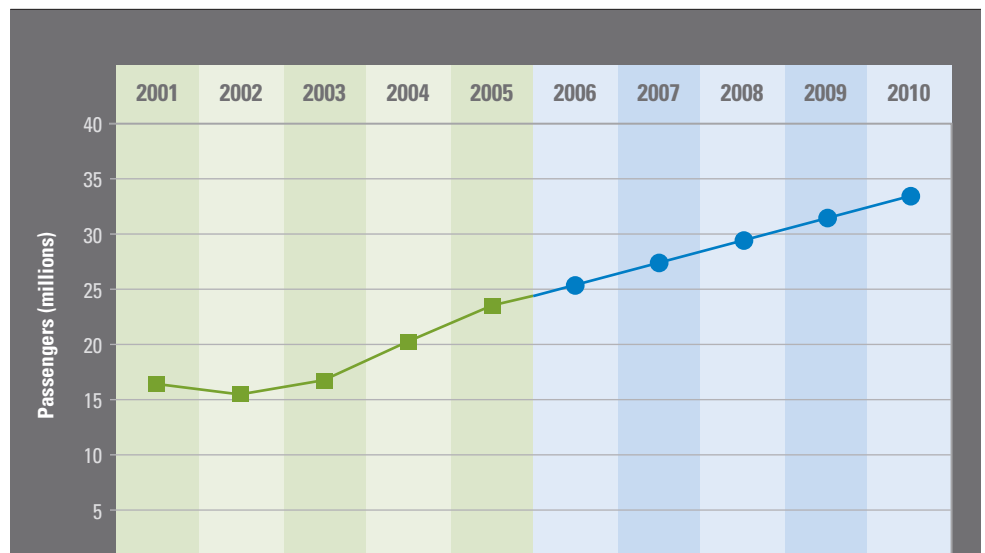
Vijay Bathija is senior principal of marketing and planning, and Khaled Al-Eisawi is manager market research and analysis for the consulting practice for the Sabre Airline Solutions business. They can be reached at vijay.bathija@sabre.com and khaled.al-eisawi@sabre.com.

Growth in International Capacity



Local and international airlines are responding to the booming India market by increasing the number of available seats to and from the country. After years of moderate growth, capacity increased 24.6 percent from 2004 to 2005.

Estimated O&D International Traffic to/from India



The last five years have seen a growing trend of increasing travel in the India market. Forecasts call for growth to continue for at least the next five years, reaching an estimated 33.4 million passengers by 2010.