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# SpiceJet to hedge crude to fix costs

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IN A bid to fix fuel costs, SpiceJet plans to hedge crude oil from September. The Gurgaon-based low cost carrier will hedge crude oil on the Multi Commodity Exchange (MCX).

The airline could look at hedging about 40 to 70 per cent of its crude oil requirement. With this move, SpiceJet will join the bandwagon of LCCs such as Southwest airlines and JetBlue that have been making profits despite escalating ATF cost, courtesy hedging.

"Hedging crude oil will enable us to know our fuel cost better. Further, the benefit of fixing the fuel the cost will help us plan any change in the air fare," Partha Basu, SpiceJet CFO told *Financial Chronicle*. The fuel cost of the airline is about Rs 1.7 per available seat kilometer of its total cost of Rs 3. The carrier has appointed Kaarvy Comtrade for hedging.

Meanwhile, trading in aviation turbine fuel (ATF) futures on MCX was also launched in June. "SpiceJet will do surrogate hedging in crude oil as ATF enjoys 98 per cent co-relation with crude oil. Also there is not enough liquidity in ATF Futures on MCX as ATF is a specialised product and only airlines and oil refinery companies can participate in ATF futures," said Ashok Mittal, Country head of Kaarvy Comtrade.

Domestic carrier Jet Airways has also hedged for crude oil in the past. Other domestic carriers such as Air India, Indigo and Kingfisher Airlines have also been planning to hedge crude oil or participate in ATF Futures on the MCX. Internationally many carriers such as Southwest, JetBlue, Singapore Airlines, Emirates, Qantas, Thai Airways among others have been hedging for substantial volume of crude oil. The percentage of hedging ranges between 20 to 100 per cent.

"Low cost Southwest Airlines and JetBlue are the best examples of carriers that have been making profits despite escalating ATF cost due to their long term hedging programme. Consistency and long term approach to hedging provides cost protection and makes the airline competitive. It is just a matter of time when all domestic carriers will also start hedging crude oil" said Hemal Shah, associate director-advisory services, Ernst & Young. Hedging could provide relief to all domestic airlines that are bleeding due to ATF cost.

SPICEJET/BSE Rs 27.30 ▲

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