MCX Conducts Hedging Workshop for Airline Companies

July 23, 2018, Mumbai: Multi Commodity Exchange of India Ltd. (MCX) organised a two-day workshop on July 20-21, 2018 exclusively for India's airline companies, educating them on managing risks connected to Aviation Turbine Fuel (ATF) prices. Senior officials from aviation companies of India participated in this workshop, which provided them a learning forum on the necessity of hedging as also building their capacities for doing so.

ATF prices have been highly volatile in recent times, which has had a telling impact on the financial bottom-lines of all aviation companies. Annualized volatility of domestic ATF prices has exceeded 24 per cent in the last one year (July '17- June '18). In a situation where ATF constitutes about 45 per cent of airlines' operational costs, the importance of hedging fuel costs cannot be overstated. Besides, given the peculiar nature of this industry, where air ticket prices (and hence, airlines' incomes) are locked in weeks and months in advance, the importance of locking in inputs costs is all the more critical for the aviation industry.

The significance of the aviation industry to India's broader economy is paramount. As per an estimate, the industry contributes about 0.5 per cent of India's GDP and supports over 1.7 million jobs in India whose productivity is 10 times the national average. Passenger traffic of Indian airlines is estimated to have been growing by a Compounded Annual Growth Rate (CAGR) of 13 per cent over the last decade or so, and, in 2017, the Indian aviation industry was world's fastest growing (17.5%) for the third straight year. It is, therefore, critical for players in the Indian aviation industry to protect their financial health against price shocks, not only for their own sustenance but also for the industry and the economy. Besides, to the extent that Indian aviation companies purchase ATF from global hubs amidst their increasingly global operations, hedging of their fuel costs helps in forex management too, apart from contributing to macroeconomic stability.

Sessions in the workshop were handled by global experts in jet-fuel hedging, who also shared their experiences of how some aviation companies outside India successfully executed hedge programmes and what tangible benefits accrued to these companies, as a result.

Mr. Mrugank Paranjape, MD & CEO, MCX said, "Energy prices, including that of jet fuel, have been highly volatile, owing to several global factors which do not appear to ebb in the near future. We believe that many users of energy products, such as the airlines firms, need to build their institutional capabilities to manage their risks arising from such uncertainties in order to thrive in an increasingly competitive world. We are happy to have organised this workshop on jet-fuel hedging, which was well attended by officials from four prominent airline companies in India. I am sure it will contribute to building the capacity of India's aviation companies, enabling them create a successful hedge programme."

Mr. Michael Barrett, Partner, FAAS Commodities Market, Ernst & Young LLP, Houston, U.S.A., said, "Development and diligent execution of a hedging program, including the subsequent application of hedge accounting, may allow Airlines to minimize the earnings volatility that results from fluctuations in the market price of jet fuel, and could result in more stable, predicable earnings over a 2-5 year horizon."

Jonathan Pardoe, Aviation Fuel Procurement and Hedging Specialist, Penthurst Ltd., U.K., said, "As Jet Fuel prices are so volatile, and such a large percentage of an airlines costs, it is essential to have a clear hedging policy on how to manage this cost to create an element of certainty."

Tom James, Senior Partner, Navitas Resources LLP, Singapore, said, "Jet fuel hedging is carried out by the majority of commercial airlines around the world, as it is of utmost importance due to the fact

that fuel input costs are a substantial portion of total operating costs. Fuel hedging is primarily used for risk mitigation for the exposure to risk relating to the volatility of the oil markets, which enable the airlines to maintain stable ticket pricing and cost for achieving profitability. Navitas Resources which is celebrating its 10th year of advising firms on their commodity risk management is very pleased to work with MCX and EY in delivering sessions on global jet-fuel markets, hedging instruments and practical challenges encountered while designing an airline hedge program."

Ernst & Young LLP, USA; EY India; and Navitas Resources, Singapore were the knowledge partners of MCX for this workshop.

About MCX:

Having commenced operations on November 10, 2003, Multi Commodity Exchange of India Limited (MCX) is India's first listed, national-level, electronic, commodity derivatives exchange. It is also the first exchange to introduce commodity options in India. In the financial year 2017–18, the market share of MCX was 89.58%. MCX offers the benefits of fair price discovery and price risk management to the Indian commodity market ecosystem. Various commodities across segments are traded on the Exchange platform. These include bullion, energy, metals and agri commodities. The exchange has forged strategic alliances with various international exchanges, as well as Indian and international trade associations. For more information about MCX and its products visit www.mcxindia.com.

For further details, Contact:
Shivani Sharma
Manager – Media Relations, MCX
Mobile: +91 9833376243
shivani.sharma@mcxindia.com