The impact of COVID-19 pandemic on corporate travel in India

November 2020
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The last decade has been characterized by sustained, rapid growth in the Indian aviation sector. Passenger numbers have grown at the average rate of 11.4% a year between 2009 and 2019, with domestic aviation, being the real engine of growth, rising from 85.5mppa to 279.3mppa (as published on DGCA’s website) over this period, a CAGR of 12.6%. This has presented enormous benefits to passengers, businesses and local economies, and has driven the transformation of how business is conducted, how airports and their surroundings develop and how families travel and stay connected.

Until the beginning of 2020, these trends were set to continue, and already governments, investors and airlines were focused on how to ensure that their capacity growth kept pace with demand, while managing local and wider environmental impacts of this rapid expansion. COVID-19 has changed everything, and while the pandemic is far from over, businesses and the aviation ecosystem are trying to make sense of which of the current ways of working and travelling are likely to be temporary, and which are likely to stick, thus becoming part of the ‘new normal’. It is vitally important to be asking these questions because recovery from this crisis will eventually come, and decisions that are made today will impact outcomes in 2021 and beyond.

Our team at ICF have been actively supporting aviation stakeholders in India for well over a decade and have seen intense competition among airlines claim several victims, while also spurring new entrants to fill their shoes. The shock of 2020 is greater than any seen before, and airlines, airports and suppliers are all grappling to emerge from the crisis.

Corporate travel represents a small but significant share of domestic Indian aviation (estimated at 15%-20%), and importantly contributes a proportionally larger share of revenues, as corporate travel typically tends to be in higher fare classes than individual business, leisure and VFR (visiting friends and relatives) travel.

Therefore, the impact of the COVID-19 pandemic on large corporates in India, and their current and future air travel behavior, is of great interest to all involved in domestic aviation in India. We are very pleased to have collaborated with EY India on this large survey and would like to thank all businesses who participated.

The findings make for thoughtful reading and suggest that it’s right to expect growth to return, but it will not be immediate and will see some long-lasting changes to business travel policies and behaviors, even after the pandemic is over.
Over the past two decades, the aviation sector has emerged as one of the largest service-providing sectors in the country. So much so, that by 2019, India rose to become the ninth largest aviation market in the world. As per the India Brand Equity Foundation (IBEF)*, over 85 international airliners operated in India along with four Indian private players and a state-run air carrier, employing over 40m people and contributing about 2.4% of the GDP, i.e., ~200b in 2020.

The unprecedented outbreak of the COVID-19 pandemic managed to severely impact most of the sectors and industries across the country. With lockdown restrictions imposed by the central government, the aviation sector came to a grinding halt with no commercial flights taking off for close to a quarter of the year. Eventually with easing restrictions, the Ministry of Civil Aviation capped airlines’ capacity and prices on certain routes. These interventions have impacted the sector at an unimaginable scale while it was already suffering from subdued demand. As per the International Air Transport Association’s report for September 2020, even after uplifting restrictions on air travel, the load factor is hovering around 50%-60%. This may result in the estimated drop in revenues by US$11.6b in 2020 as compared to last year. This is primarily due to business travellers pivoting from face-to-face meetings to virtual meetings adapting to the new normal.

It is estimated that the Indian aviation sector, including airports, airlines and ground handling agencies, has already suffered losses to the tune of US$3.3b-US$3.6b during April-June 2020. This has the potential to further shrink the burgeoning Indian aviation market to a handful of players.

Globally, the situation is not any different, with several airlines such as Virgin Australia and Malaysian Airlines, facing the heat due to the pandemic. Though global airlines are proactively taking measures to tide through the crisis, Indian airline operators, while raising interim finance to meet their debt obligations, need to think beyond meeting immediate obligations for a more sustainable operating model for the near- to mid-term. They should also keep in mind the sluggish recovery of corporate travel and subdued discretionary travel in the months following the unlocking of restrictions.

With the economy opening up slowly, the real impact of the pandemic on the revenue will be visible in the quarterly filings for airline operators, which require them to have a huge working capital for sustenance. Though government bailouts are not anticipated in the near term, this sector, not surprisingly, did feature on the list of stressed sectors identified by Kamath Committee for One Time Restructuring (OTR) by lenders. This would provide the sector some interim relief. The need of the hour is to pivot strategic thinking by relooking at fleet utilization in passenger vs. freight cargo, renegotiating lease agreements and deferring airplane orders to a future date while coming up with hedging strategies based on future fuel requirements, leveraging low oil prices.

The survey, conducted along with ICF, resonates the point of inertia of corporate India to get back to routine business travel as it was during pre-COVID times. It also indicates that demand will continue to be sluggish in the coming months which would not be enough for airlines to generate sufficient cash to sustain, given that even they are relying on business travels to remain profitable.

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Introduction

At the time of writing this report, countries across the world continue to enforce a range of precautions to help prevent the spread of COVID-19. In India, a stringent, nation-wide lockdown was imposed between March and May 2020. Since June 2020, travel restrictions have been phased out, limiting lockdown to containment zones, but wearing a mask is mandatory in public places. In addition, individual states have continued to impose local travel restrictions, although state borders have largely opened-up since August 2020. Despite such preventive measures, given India’s large, dense population, as of October 2020, the country reported the world’s second highest number of cases and the third highest deaths from the pandemic. Since there is lack of clarity on the availability of a potential vaccine, travelers have remained reluctant to use public transport for work, leisure or otherwise.

As a result of various restrictions and continuing health concerns, air travel demand and consequently airlines’ top lines have been significantly impacted. Such steep declines in revenue have forced air carriers to operate under ‘survival mode’. As the corporate workforce adjusts to a more virtual and remote working environment, business travel generated through corporate contracts, a key revenue generator for most carriers, remains at historic low. Whether this new reality will become the “new normal” remains a big secret.

It is against such a backdrop that EY and ICF have surveyed executives of top Indian corporations in an endeavor to understand how these corporates and domestic corporate travel have been impacted due to the pandemic. This study also aims to capture the expectations of the top C-suite regarding the recovery of domestic business travel over the next two years.
The survey, concluded in September 2020, captures the views of executives from travel-intensive sectors across the country. It explores how their businesses have been impacted by COVID-19 and captures how the pandemic has translated to their corporate travel policy and the steps these businesses are taking to evolve.

Key findings

• The bulk of respondents (92%) reported that their businesses have been adversely impacted by the pandemic at the time of taking the survey. An almost identical percentage of respondents expect recovery in their businesses by the end of 2022.

• As a result of COVID-19, respondent companies, which previously had a limited proportion of their staff working from home, have moved primarily to work-from-home model during the pandemic. Many respondents believe that the work-from-home culture will continue to co-exist to a non-negligible degree along with the office culture, post-pandemic.

• A combination of employee health concerns, reduced business activity and limited flight options have led to corporate travel restrictions in most respondent companies. It is quite unanimously believed that these restrictions will remain in place for the remainder of 2020, but corporate travel will resume domestically to some extent in 2021.

• Despite having expectations that business travel will get resumed next year, most respondents are of the opinion that corporate travel policies will be revised to limit strategically important business development and revenue enhancement activities. This, the majority believe, will be a result of the proven effectiveness of video conferencing tools. Others hold that reduced business activity and budget limitations will also impact corporate travel.
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SECTION

Summary of survey respondents
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Respondents profile

The survey saw individual participants from a wide array of industries that differed in sizes. Nearly half of the respondents were from the “professional services” sector, which includes banking, financial services, insurance, auditing, accounting and consulting services. Besides this, there were participants from the automotive and industrial manufacturing sector (18%), consumer goods industry (12%), and infrastructure/real estate industry (11%), among others. Over 25% of the respondents were from large companies with over 10,000 employees, and 20% of them were from small companies with less than 100 employees. The remaining respondents were from moderately small to moderately large companies. We estimate that the survey represents those companies that are responsible for over one million annual domestic trips in India.

Corporate travel profile of respondents

The focus of the survey was to review those companies that typically require air travel in normal course of business. Nearly 40% of respondents were from the companies whose staff travels on a moderate/high level (at least 20% of the staff travels domestically for business purposes in the ordinary course of work). Participants also indicated that some of their employees travel frequently domestically for work, with over 65% reporting that their employees have made at least five trips on an average in a year.
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General business impact

How severely has your business been impacted by COVID-19?

- Total shutdown: 2%
- Significant negative impact: 38%
- Partial negative impact: 52%
- No impact: 2%
- Business has grown during COVID-19: 6%

Businesses have been impacted differently by COVID-19. Although a significant majority of the respondents (over 90%) noted adverse impact to their companies, ranging from partial business impact (in the case of 52% of respondents) to total operational shutdown (2% respondents). The small share of companies that experienced a total standstill in business activity were in the travel and tourism and microfinance industries. Another minority share of respondents (6%), comprising primarily of those in the “professional services” sector, reported that their businesses have actually grown since the pandemic began.

What percentage (%) of your workforce is working from home?

- Pre-COVID-19: 84%
- During COVID-19: 40%
- Post-COVID-19 (expected): 39%

COVID-19 has forced companies to adjust and re-think the way in which business is conducted, not only to comply with national and local restrictions and guidelines, but also to protect the health of their employees. One of the biggest changes to the way we work has been the concept of working from home rather than in office. Technology has enabled employees to meet their work-related obligations virtually/remotely. While working from home was a pre-existing concept, a larger number of companies have now resorted to it for a significant proportion of their staff. Prior to COVID-19, the bulk (84%) of participating companies allowed a few, if any, of their staff to work from home (<20% employees worked from home) and only 7% of them allowed most of their staff (at least 80% of employees) to work from home. At present, in response to COVID-19, our findings disclosed that 40% of the companies are allowing at least 80% of their employees to work from home, and about 60% of the companies are ensuring that at least 40% of their staff is working from home. Many believe that this trend is not going to reverse completely after the pandemic, with about a third of survey respondents expecting at least 40% of their staff to continue working from home.
The proliferation of virtual meetings during the pandemic has inevitably impacted business travel, as fewer meetings are taking place in person, whether by necessity or by choice. In fact, the vast majority (78%) of the survey respondents indicated that there are restrictions on domestic travel within the company for employees. The current outlook on corporate business travel for the rest of 2020 remains quite pessimistic, with less than one third of respondents expecting to travel for business purposes for the remainder of 2020. However, a significant share (90%) of respondents believe employees will travel domestically in 2021.

According to about two-thirds of the respondents, health and safety concerns have been identified as the main reason that people prefer not to travel to participate in face-to-face meetings. Moreover, other respondents cited lack of flight connectivity along with health concerns, coupled with budget limitations, reduced business activity and convenience of virtual meetings as the other reasons that have negatively impacted corporate travel.

### Corporate travel impact

<table>
<thead>
<tr>
<th>Has your company imposed any restriction on employees to travel domestically for business purposes?</th>
<th>78%</th>
<th>22%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you expect your employees to travel domestically for the remainder of 2020 for business purposes?</td>
<td>28%</td>
<td>72%</td>
</tr>
<tr>
<td>Do you expect your employees to travel domestically in 2021 for business purposes?</td>
<td>90%</td>
<td>10%</td>
</tr>
</tbody>
</table>

**Note:** Only responses from executives who work in companies with restrictions on domestic travel are shown. 'Others' include lack of business (e.g., textiles).
Almost half (45%) of the corporates believe that the restrictions on business travel will be removed within the next 12 months, and employees will be willing to take business trips. However, a large share (39%) of business executives are of the view that travel will only resume once vaccines are available in the market and their employees have access to it.

Even after restrictions on domestic travel are lifted by local authorities, there is likely to be a lag in growth of domestic corporate travel. However, this lag appears to be relatively short, given that almost three-quarters of respondents believe that their companies will take less than six months to allow corporate travel. In addition, 14% of respondents indicate that their company would allow domestic travel immediately after restrictions are lifted.

### For how long do you expect the domestic travel-related firm restrictions to remain?

- Less than 6 months: 15%
- 6-12 months: 30%
- More than 12 months: 15%
- Depends on the vaccine availability: 39%

*Note: Only responses from executives who work in companies with restrictions on domestic travel are shown.*

### Once travel restrictions are lifted by local authorities and governments, how long do you think will your company take to allow domestic travel?

- Immediately: 14%
- Within 6 months: 59%
- Within 12 months: 22%
- More than 12 months: 5%

*Note: Only responses from executives who work in companies with restrictions on domestic travel are shown.*
The future of corporate travel

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When do you expect business to bounce back to normal?

<table>
<thead>
<tr>
<th>When</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Within a year</td>
<td>53%</td>
</tr>
<tr>
<td>Between 1-2 year</td>
<td>39%</td>
</tr>
<tr>
<td>More than 2 years</td>
<td>9%</td>
</tr>
</tbody>
</table>

The surveyed executives maintained a relatively optimistic outlook on recovery of their businesses from COVID-19. Over half of them noted that their revenues are expected to bounce back to pre-COVID-19 levels in the next year while close to another 40% are expecting businesses to recover between a year to two years.

Will we see any revision in the travel policy in terms of reduction in travel requirements for only business development / revenue enhancement opportunities?

- Yes: 76%
- No: 24%

Despite a recovery in business activity, over three-fourths of the survey participants anticipate longer-term changes in company travel policies, with corporate travel being limited primarily to business development and revenue enhancement opportunities. Moreover, it is unanimously expected (by 94% of respondents) that there will be corporate travel budget cuts in the next year, with more than a third of respondents supposing that these cuts will exceed 60% of 2019’s budget. Only 6% of the executives, from a variety of sectors, believe that their company’s travel budget will increase in 2021 as against what it was in 2019.
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It was commonly acknowledged (by 76% of respondents) that technology and virtual meetings will be the biggest adversity to business travel going forward, followed by reduced business activity (14% respondents).

When compared to 2019, by what percentage do you think would your company's pre-COVID-19 travel budget reduce in the next 12 months?

- Over 60%: 34%
- 40%-60%: 31%
- 20%-40%: 23%
- Less than 20%: 7%
- Travel budget is likely to increase: 6%

It is evident that COVID-19 has created a fundamental shift in work practices across businesses and as a result, it has impacted the corporate air travel market. While the current decline in business travel may not be permanent, the recovery may be different compared to recoveries from downturns of the past. The widely adopted work-from-home culture has opened a new way of conducting business, thereby having not only immediate implications for business travel, but potentially longer-lasting ones. It begs the question what airlines would need to do to retain this important customer base. However, as always, in the face of adversity, there are many opportunities to restructure the business. Airlines must refocus on new traveller profiles (such as small businesses and proprietorships) and implement new tools (strong loyalty programmes, for instance) that could be leveraged to generate new revenue streams instead of waiting for things to fall back to normalcy.

What according to you would impact domestic air travel the most?

- Technological advancement - virtual meetings: 76%
- Reduced business activity: 14%
- Budget limitations: 6%
- Other: 4%

It is evident that COVID-19 has created a fundamental shift in work practices across businesses and as a result, it has impacted the corporate air travel market. While the current decline in business travel may not be permanent, the recovery may be different compared to recoveries from downturns of the past. The widely adopted work-from-home culture has opened a new way of conducting business, thereby having not only immediate implications for business travel, but potentially longer-lasting ones. It begs the question what airlines would need to do to retain this important customer base. However, as always, in the face of adversity, there are many opportunities to restructure the business. Airlines must refocus on new traveller profiles (such as small businesses and proprietorships) and implement new tools (strong loyalty programmes, for instance) that could be leveraged to generate new revenue streams instead of waiting for things to fall back to normalcy.
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