Airline stocks fly into rough weather again

Rising crude prices, free-seat rule cloud outlook for Indian carriers

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New Delhi, 18 March

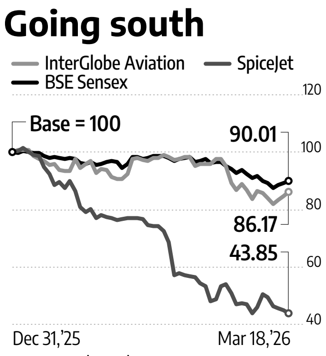
India's aviation sector is facing fresh turbulence, with rising fuel costs, the Ministry of Civil Aviation's free-seat directive, and geopolitical disruptions in West Asia clouding near-term earnings visibility.

Shares of SpiceJet and InterGlobe Aviation (IndiGo) have corrected 56.15 per cent and 13.97 per cent, respectively, since the start of 2026, against the Sensex's 10 per cent decline, according to Ace Equity. Analysts, however, caution that the worst may not be over yet.

"Escalating tensions in Iran-war-hit West Asia have rendered large parts of its airspace a 'no-go' zone, forcing flight cancellations and rerouting. Increased flight times, along with a spike in fuel costs due to rising crude oil prices, will weigh on airlines' profitability and margins in the near term," said analysts at Emkay Global Financial Services.

Since the Iran war began, airline shares have dropped up to 18.9 per cent, compared with a 5.64 per cent fall in the Sensex.

Going south



Sources: Bloomberg, BSE

Fuel bills blow a hole in profits

A sharp rise in global crude prices amid escalating West Asia tensions remains the sector's biggest overhang. While Brent crude has eased from $120 to $100 a barrel, analysts say uncertainty persists.

Airlines, including IndiGo and Air India, have introduced fuel surcharges ranging from ₹400 to ₹16,600 per route. Independent market analyst Ambareesh Baliga said, however, that these charges will not fully offset rising oil costs, clouding near-term earnings visibility.

Aviation turbine fuel, which tracks crude movements, has climbed to 85 per cent since the West Asia crisis began. Fuel accounted for 30-35 per cent of total operating expenses for IndiGo and SpiceJet at the end of the third quarter of financial year 2026 (Q3FY26). Analysts warn that such sharp cost increases could erode margins Q4FY26 and possibly Q1FY27.

Free seat rule clips airlines' wings

Adding to the pressure, the government asked airlines on Wednesday to keep 60 per cent of seats free of charge, limiting their ability to monetise from seat selection.

Analysts say the move could dent ancillary revenues, an increasingly critical profitability lever for carriers. "Seat pricing, a sizeable chunk of ancillary revenue, had been rising steadily. Freeing 60 per cent of seats will hurt realisations," Baliga said.

Chokkalingam G, founder and managing director of Equinomics Research, added that the government move, combined with rising fuel costs and reduced Gulf flights, is negative for the sector. "If this directive becomes permanent, it could kill the industry," he warned.

Airline stocks in a crosswind: Buy or bail?

Analysts advise investors to avoid these stocks until the Iran war subsides. Several international routes in the Gulf, a key market for Indian carriers, have been disrupted, while travel safety concerns are beginning to weigh on passenger sentiment.

"Leisure travel is expected to take a hit, especially ahead of the holiday season," Baliga said, recommending investors hold off as the financial impact unfolds over the coming quarters.

Kranthi Bathini, equity strategist at WealthMills Securities, said that while IndiGo's price-to-earnings valuations have corrected, they remain high at 37x. "Oil price movements will be the key monitorable, as margins are expected to stay under pressure in the near to medium term," he said.

Chokkalingam, however, believes much of the short-term pain may already be priced in, and long-term investors could consider buying the dip.

YOUR MONEY

NEW INVESTORS AND MARKET CORRECTION

Build a watchlist of quality stocks, buy at target prices

HIMALI PATEL

The Indian markets have witnessed a lot of volatility this month, owing to the U.S.-Israel war against Iran. The Nifty 50 is down 9 per cent, the Nifty Mid Cap 150 6.9 per cent, and the Nifty Small Cap 250 9.2 per cent year-to-date.

Meanwhile, the number of demat accounts has risen by 32 million or 16.8 per cent over the year ending February 2026. Many of these are new investors experiencing their first major bout of volatility.

Not all corrections are alike

Investors often make behavioural mistakes during a market downturn, like indulging in panic selling at lows. "By exiting during temporary declines, you could miss out on the recovery," says Feroze Azeez, joint chief executive officer (CEO), Anand Rathi Wealth.

Often, recency bias affects behaviour. "Do not assume that the current correction will behave like the other recent ones," says Shrikant Chouhan, head equity research, Kotak Securities. While the 2020 Covid-19 crash and the 2025 tariff-led correction saw sharp recoveries, all corrections may not follow the same pattern.

Investors tend to chase beaten-down stocks blindly. "Do not keep buying more of falling stocks without reassessing their fundamentals," says Devarsh Vakil, head of research, HDFC Securities.

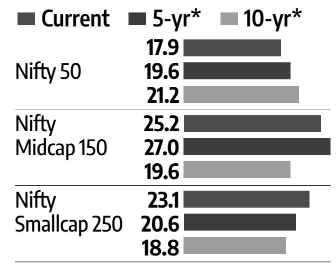
A highly concentrated portfolio can be risky. "Construct a portfolio with no fewer than 20 stocks at any point in time," says Kashyap Javeri, fund manager & head of research, Emkay Investment Managers.

Volatility or deterioration in fundamentals?

Investors must distinguish between a price decline caused by broad market volatility and one driven by a deterioration in fundamentals. "The broad market can fall because of global uncertainty, geopolitical events, and commodity price movements even when fundamentals remain stable," says Azeez.

Large and midcap valuations have moderated

Blended forward 12-month PE



*Average; Source: Bloomberg; Compiled by BS Research Bureau

Revisit the original reasons for owning the stock and examine whether they hold. Check whether the company's balance sheet remains strong, debt is manageable, and earnings growth remains steady or improving. "Assess expected growth over the next three to five years rather than rely only on historical earnings," says Vakil.

Also assess whether its long-term competitive advantage, business outlook, and industry dynamics remain positive. Retain stocks generating strong cash flows.

Assess the valuation at which the stock was bought. "Even a great company can be a bad investment if you pay too much during a hype cycle," says Vakil.

"If these checks remain positive, treat the fall as part of the broader correction and respond with patience rather than panic," says Vakil.

What to sell

Sell if the original investment thesis no longer holds and visibility on future earnings growth is weak. "Shrinking margins despite revenue growth signals a loss of competitive advantage or rising cost pressures," says Vakil.

Exit cash-burning companies in highly competitive industries. "Frequent changes in top management, accounting irregularities, and corporate governance issues are other reasons to sell," says Vakil.

Post-correction opportunities

Market corrections throw up opportunities to buy the right stocks at the right price. "Corrections compress valuations across the board and create opportunities in quality businesses," says Akshay Chinchalkar, managing partner and head of markets strategy, The Wealth Company.

"Opportunities are opening up in auto and auto ancillaries, capital goods, financials, and in small- and mid-cap space at the granular stock level," says Javeri.

How to deploy fresh money

Identify 10 to 12 businesses you would want to own for three to five years and start building positions at current levels instead of waiting for the exact bottom. Split the intended allocation into three tranches and deploy them gradually.

If you have a three- to five-year horizon, do not check your portfolio every day because that can trigger poor decisions. "Keep a watchlist of quality names with target buy prices and act on logic rather than panic," says Chinchalkar.

The writer is a Mumbai-based independent journalist

Capital gains tax worry? CGAS helps you park gains and buy time

Selling assets like property can trigger capital gains tax. To claim exemptions, you must reinvest the proceeds within specific timelines using the Capital Gains Account Scheme (CGAS) to bridge the gap.

It is a way to retain tax exemptions when reinvestment is delayed, but it comes with strict rules and timelines. "It is not a tax-saving tool; it is a time-management tool within the capital gains exemption framework," said Niyati Shah, vertical head, personal tax, at 1Finance.

Rules allow taxpayers to claim an exemption by reinvesting gains into residential property. However, the tax filing deadline often arrives before reinvestment is completed. "In such cases, taxpayers can deposit the unutilised amount in a CGAS account before filing their returns to preserve exemption eligibility," said Mrinal Mehta, joint secretary, Bombay Chartered Accountants' Society.

CGAS offers two options

Savings account: Suitable for staggered payments, such as under-construction property.

Term deposit: Better for lump-sum payments, offering relatively higher returns.

Errors in using CGAS can lead to tax liability. Withdrawals are tightly regulated and must be used only for specified purposes like property purchase or construction.

Read full report here: mybs.in/2g4e5k6

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