

| COVER STORY — **AVIATION** |

BATTLE FOR THE SKIES

BY **MANISH PANT**

**INDIA'S AVIATION
SECTOR IS BRACING
FOR ANOTHER FIGHT
FOR MARKET SHARE.
AND THE PRIMARY
PROTAGONISTS ARE
MARKET LEADER
INDIGO AND THE
TATA GROUP**

ILLUSTRATION BY **ANIRBAN GHOSH**



IT IS THE best of times, it is the worst of times. It is the age of a rally in air travel, it is the age of runaway fuel prices. It is the era of growth returning to Indian aviation, it is the era of high operational costs delaying recovery. In short, we'll know if India's airline sector—which contributes an estimated \$72 billion to the country's GDP—flies high again even as the great battle for the skies unfolds in the months ahead.

What's the big deal? Only 4 per cent of India's 1.38 billion people have taken a flight to date, so there's much room for growth. "We believe there is a huge market waiting to be tapped. It has a lot of potential and space for everyone," says Ronojoy Dutta, CEO of IndiGo, India's largest carrier. Avers Vinod Kannan, CEO of full-service carrier (FSC) Vistara, a joint venture between Tata Sons and Singapore Airlines (SIA): "The potential it has is very different from most countries in Southeast Asia. The closest perhaps is Indonesia, which is a market of about 250-300 million people, with a lot of young people wanting to travel. But the scale of the Indian aviation market is second to none."

The father of Indian low-cost aviation, Air Deccan Founder G.R. Gopinath, feels the government should bring in reforms and incentives to make travel affordable and thereby boost the industry: "These incentives and reforms and lowering barriers will have to be done comprehensively across the entire sector—aviation fuel, GST and lease taxes, customs, airports and so forth."

FY21 was a particularly challenging period for the industry. Amid the pandemic, the financial loss to Indian carriers was approximately ₹19,000 crore, while for Indian airports, it was around ₹3,400 crore. Domestic air passenger traffic declined by 61.7 per cent in 2021.

As the impact of the pandemic ebbs, one of the world's most competitive airline markets is gearing up for another

dogfight. And the two biggest protagonists in this battle are IndiGo, with 51.3 per cent market share, and the Tatas, with a combined 26.6 per cent share across four airlines.

Market leader IndiGo sounded the bugle in right earnest in February, by appointing Promoter Rahul Bhatia to the role of Managing Director to make the airline "future ready" for competition.

In 2006, Bhatia and aviation industry veteran Rakesh Gangwal had set up what has since become India's most successful low-cost carrier (LCC). With more than three decades in the travel industry, Bhatia is known to be very thorough with all aspects of the aviation business. People know him as an astute businessman who believes in getting the best talent to work with IndiGo. Aviation industry insiders point out how he firmly supported Gangwal in laying a rock-solid foundation for the company, while he himself managed the policy environment to ensure a smooth take-off for the carrier. The teamwork eventually resulted in the airline placing an order for 100 A320 aircraft with Airbus a year ahead of the launch. A few years ago, when an acquaintance texted Bhatia to congratulate him for making it to the list of the top Indian billionaires, he called back to say: "Wealth comes and goes... It's far more important to build a sustainable brand based on sound work ethics."

This isn't the first time Bhatia has returned to the cockpit. In 2018, when then CEO Aditya Ghosh abruptly quit, he took charge as interim CEO. As MD, he will focus on piloting the airline's domestic and international business strategies as well as retaining its leadership position.

IndiGo operates an all-Airbus fleet of 276 aircraft. The airline's 35 ATR 72-600 turboprops are again manufactured by a JV between Airbus of France and Leonardo of Italy. One of IndiGo's key traits has been to buy Airbus

IN FY21, INDIAN CARRIERS SUFFERED LOSSES OF AROUND ₹19,000 CRORE WHILE AIRPORTS LOST ₹3,400 CRORE

aircraft at prices that are amongst the lowest in the world, which should stand them in good stead as competition intensifies. Since its inception, the airline has always focussed on connecting large-, mid-size- and small cities. “We are closely monitoring the current trends across air traffic, train passengers as well as the economic situation. Based on all these factors and various demand estimates, we are working on new routes and flights,” says Dutta.

With the lifting of curbs on international flights, IndiGo is looking at restarting operations on those routes. “We will take every opportunity we can to return to the previous 24 destinations we were operating before the pandemic, and expand our network to other destinations within the six-to-seven-hour range with our narrow-body aircraft,” Dutta adds.

Attributes like slots on all metro routes, a high aircraft-to-destination ratio, a steady schedule resulting in good on-time performance, massive profits from sale and leaseback, adept cost optimisation, and a strong ecosystem of travel and aviation services have all helped IndiGo consolidate its position in the market. “It is also very important for a market like ours to have stable players like IndiGo, an Indian operator that is sought out globally for transacting and leasing aircraft into India. There is no doubt that they have successfully managed a budget airline despite all the odds, and in doing so have also created a level playing field for all Indian operators,” says Neha Singh, Associate Partner at law firm Link Legal.

After posting losses for several straight quarters, the carrier reported a profit of ₹130 crore for October-December 2021. “As the market leader, IndiGo will need to protect and maintain market share and profitability amid new competition,” says a senior executive at an aviation advisory firm.

“Amongst the present airlines, IndiGo has enough cash balance—ap-

READY TO SOAR AGAIN

India's aviation sector is in comeback mode, with recovery in passenger traffic and the entry of new carriers

- 1 Domestic passenger traffic continued to recover with 7.7 million people travelling in February compared to 6.4 million in January, a rise of 20 per cent
- 2 Regional routes connecting Tier II and III cities are said to be the new engines of growth
- 3 But rising ATF prices continue to worry airline operators; ATF contributes up to 45 per cent of total operating costs
- 4 The high fuel costs and losses suffered since March 2020 may prevent airlines from offering deep discounts on fares
- 5 A strong framework is needed to prevent the rise of monopolies that may scuttle new companies from emerging

proximately ₹17,300 crore in December—to cover over 18 months of cash burn, much higher than less than six months for peers,” says Karan Khanna, Aviation Analyst at Ambit Capital. Thus, the airline could prioritise defending market share over profitability in the near to medium term.

AS THE initial euphoria following the successful return of Air India to the Tata group subsides, speculation has begun on how the \$103-billion salt-to-software conglomerate would turn around the national flag carrier. Experts say much will depend on the seamless integration of the group's existing carriers with the formerly government-owned airline. The Tata group's management control of Air India Ltd includes the FSC Air India, and its low-cost unit Air India Express. Other than Vistara, it operates AirAsia India, a JV between Tata Sons and Malaysia's AirAsia.

To be competitive, the Tatas need to look beyond just turning around Air India. “The Tata group now effectively manages four airline brands, each with a distinct profile, culture and cost base. The integration will involve looking at common systems, redundant capacity and costs, all done keeping in mind competition policy. The jury is out on whether the group will integrate all brands or follow a ‘house of brands’ strategy,” says Satyendra Pandey, Managing Partner at aviation advisory AT-TV. If the fleets of the four carriers—Air India, Air India Express, Vistara and AirAsia India—are consolidated, it comes to 233 Boeing and Airbus aircraft in varying configurations. This is the second-largest fleet of civil aircraft in the country.

“Integration of the four airlines will need to be a well thought out strategy. The full-service airlines and the LCCs can individually be merged. A lot of synergies can be tapped by merging Vistara with Air India, and AirAsia

₹130

CRORE
INDIGO'S PROFIT IN
OCT-DEC 2021

₹17.3K

CRORE
THE AIRLINE'S
CASH BALANCE IN
DECEMBER 2021

MIXED RETURNS

Airline stocks have displayed a mixed trend in FY22. With a rally of 20 per cent since April 1, 2021, shares of InterGlobe Aviation (IndiGo) jumped to ₹1,962.85 on March 28, 2022. On the other hand, Jet Airways (India) and SpiceJet declined 10.27 per cent and 18.92 per cent, respectively, during the same period. Meanwhile, the benchmark BSE Sensex has advanced 16.33 per cent in FY22 so far. These same stocks had delivered handsome returns to investors in FY21, on the back of robust liquidity in the market. Jet Airways, SpiceJet and InterGlobe had surged 600 per cent, 88 per cent and 53 per cent, respectively, in FY21, while the 30-share Sensex gained 68 per cent during the period.

—RAHUL OBEROI



[India] with Air India Express, but all of this is expected to happen only in the medium term," says Jagannarayan Padmanabhan, Practice Leader & Director, Transport and Logistics, CRISIL Infrastructure Advisory. "With the privatisation of Air India, their balance sheet is expected to improve hereon," says Ambit's Khanna.

The tie-up with SIA for Vistara has given the Tatas the experience of offering a premium product. This will likely come in handy once an integrated Air India starts connecting rural and upcountry services to its metro and international routes. Currently, Air India and Vistara are the only Indian carriers with the capability to operate long and ultra-long-haul flights, though others such as IndiGo and SpiceJet also fly international. Vistara has placed orders for six Boeing 787 aircraft, which can fly for 20 hours non-stop, and is examining the possibility of offering such flights from India. "There are potential opportunities. We are doing some studies and reviews to see whether that makes sense. The routes that we currently operate with the B787s in Europe have been doing phenomenally well," says Kannan.

Following former Turkish Airlines Chairperson Ilker Ayci turning down the CEO's position at Air India, Tata Sons Chairman N. Chandrasekaran has been made chairman of the airline. "The Tatas will have to sooner or later appoint a full-time CEO for the airline. The earlier the appointment is done the better, as Air India requires not just a full-time CEO to provide able leadership, but also a new management team to revive and transform it into a world-class airline," says Jitendra Bhargava, industry veteran and former ED at Air India.

Experts separately told *Business Today* that the delay in the appointment of the CEO might have already set back restructuring plans at Air India by a few months.

PERHAPS NO airline since the launch of the country's first LCC, Air Deccan, in 2004 has evinced as much interest as stock market bull Rakesh Jhunjhunwala-promoted Akasa Air, which will start operations in June. "There are many people in India who have never taken a flight, and we will cater to such travellers, but we will also focus on the frequent flyer," says Vinay Dube, CEO, Akasa Air.

"The entry of new carriers bodes well for the sector in the medium to long term as it adds more passenger-kilometres capacity to cater to growing demand and also adds a touch of fresh competition," says Sumit Singhania, Partner, Deloitte India. Indian carriers currently have about 700 aircraft in their fleets, including parked or stored aircraft. India is projected to need 2,380 new commercial airplanes by 2038 to meet rising demand, said a 2019 Boeing forecast. "With the growth of airport infrastructure across India, coupled with the growth of the Indian economy in the long term, it is safe to assume that the Indian market can absorb more than three times the current fleet over the next 10-15 years," says Rohit Tomar, Partner at aviation advisory Caladrius Aero.

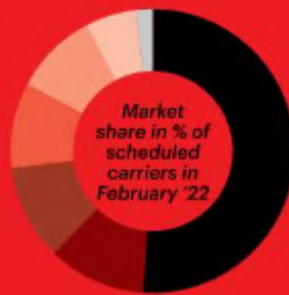
Last November, Akasa placed an order for 72 Boeing 737 MAX aircraft valued at \$9 billion. The airline will be leveraging these to offer new routes. "The key factors for success would entail a proper value proposition, focusing on sectors other than the trunk routes, consistency in delivery, and being cost-competitive," summarises CRISIL Infrastructure Advisory's Padmanabhan. "Our initial network focus will be to serve metros to Tier II and III cities. So, in that respect, Bengaluru, Delhi, Mumbai, etc., will be important focus cities for us. We expect to have clarity in the coming months as our discussions with the airport operators mature," says Dube.

Meanwhile, nearly three years after it went bankrupt, Jet Airways' new

ROOM FOR MORE

IndiGo, by far, has the largest market share in India. But there is room for more airlines as only 4 per cent of the country's population currently travels by air

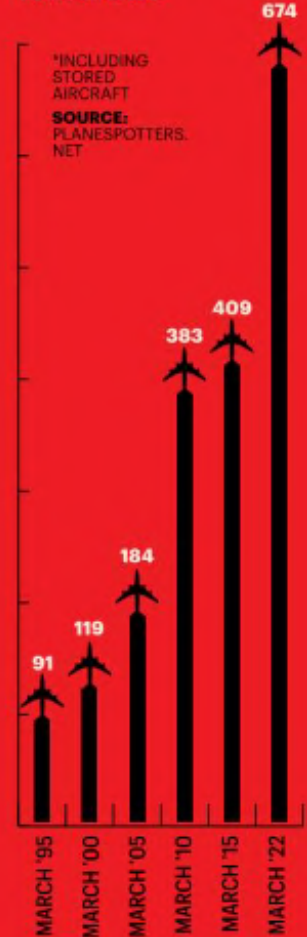
(AIR INDIA INCLUDES THE PARENT FULL-SERVICE CARRIER AND ITS LOW-COST SUBSIDIARY AIR INDIA EXPRESS)
SOURCE: DGCA



IndiGo (51.3)
Air India (11.1)
SpiceJet (10.7)
Vistara (9.7)
Go First (9.5)
AirAsia India (5.8)
Others (1.9)

FLYING HIGH

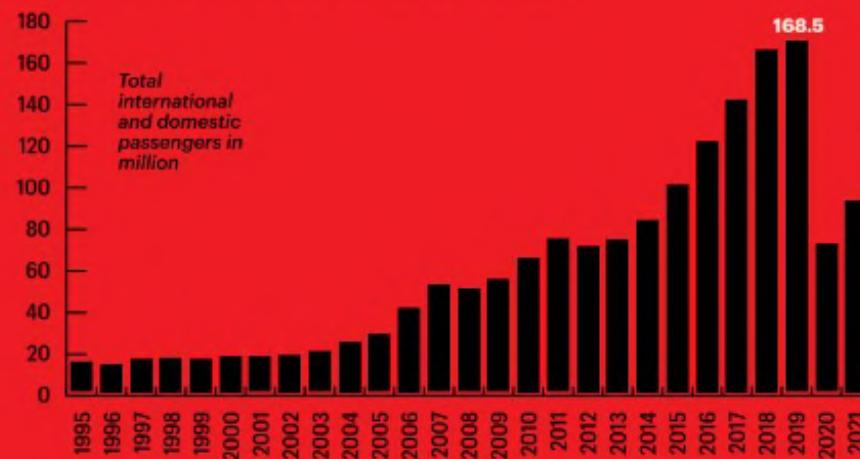
Total aircraft*



*INCLUDING STORED AIRCRAFT
SOURCE: PLANESPOTTERS.NET

PASSENGER TRAFFIC GOING UP AGAIN

After growing incrementally from 2013, passenger numbers declined sharply in 2020 because of the Covid-19 pandemic



SOURCE: INDUSTRY

SOARING ATF PRICES

In FY22 alone, the cost of refuelling for domestic airlines has risen by about 90 per cent



PRICE IN ₹/KL SOURCE: IOC & PETROLDIESELPRICE.COM



GRAPHICS BY RAHUL SHARMA



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VINOD KANNAN
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Incentives and reforms [from the government for the sector] and lowering barriers will have to be done comprehensively across the entire sector—aviation fuel, GST and lease taxes, customs, airports and so forth

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VINAY DUBE
CEO, AKASA AIR

owner—the Kalrock-Jalan consortium—has recently appointed former Vistara Chief Strategy and Commercial Officer Sanjiv Kapoor as CEO, and former Sri Lankan Airlines CEO Vipula Gunatilleka as CFO. “A successful transition [of Jet] would also be an important milestone in showcasing the effectiveness of the Indian Insolvency & Bankruptcy Code (IBC),” observes Link Legal’s Singh. The airline is looking at returning as a premium FSC, retaining its original branding, livery and logo. According to market sources, the airline may be looking at acquiring up to 100 narrow-body jets.

“Once these two airlines see a smooth take-off and passengers start evaluating and comparing them with existing players, we could see the competitive heat rising,” says Deepak Jasani, Head of Retail Research, HDFC Securities. The market is also expecting Go First (formerly GoAir) to finally list on the bourses this year. Last December, the Nusli Wadia-backed LCC’s plans to raise ₹3,600 crore were put in abeyance due to the Omicron wave of the coronavirus pandemic. “Whilst demand is reviving, increasing competitive intensity, apart from high ATF, would [reflect on] profitability, implying requirement of funds to sail through the situation,” says Ambit’s Khanna. Having postponed listing a couple of times in the past, Go First is thus expected to firm up a date only after carefully assessing the market sentiment.

TIER II AND III cities are expected to contribute to the next round of growth in aviation. Among scheduled airlines, IndiGo and SpiceJet are already among the country’s largest regional players, operating 72 daily flights each under the UDAN scheme.

Then there are the small regional carriers. Founded in 2020, Indore-headquartered FlyBig currently serves 15 destinations in Tier II cities in West, Central, South and North-East India with ATR 72-500 turboprop aircraft. “There is a tremendous shift happening in passenger profile, with a lot of middle- and working-class people taking flights due to the time factor, affordable UDAN fares and Covid-19, where a lot of people wish to avoid other modes of public transport,” says FlyBig’s MD Sanjay Mandavia. “Also, increased reliance on the internet economy means that people no longer need to be in big cities to earn a living. They can use their savings to travel by air.”

Ahmedabad-based regional carrier IndiaOne Air will launch operations in a few weeks from Odisha with a fleet of 14-seater Cessna Grand Caravan EX. “All airports in Tier I cities are operating at maximum capacity whereas airports in Tier II and III cities are either underserved or unserved,” remarks Arun Singh, CEO. “In April 2015, on average 99,600 passengers travelled exclusively between Tier I cities. Traffic involving at least one leg with Tier II or III city was 118,300, daily. In December

2021, this grew to 109,000 and 251,000 at a CAGR of 1.9 and 12.5 per cent, respectively. Growth in Tier II and III cities has already started to outperform that in Tier I cities," he says, adding that 15 per cent aircraft operated by all airlines are regional aircraft, and this count is expected to increase fivefold in the next two decades.

IN A HIGHLY price-sensitive market with cutthroat competition, airlines have to carefully manoeuvre the high input costs in terms of aviation turbine fuel (ATF), maintenance and leasing, which can exceed 60 per cent of total operating costs. Point to note: more than 30 airlines have shut down since India liberalised its aviation sector in 1990.

The biggest concern is the high cost of ATF for domestic operations, which can vary from 25 per cent of total operational costs for a single-engine aircraft to up to 45 per cent for a large passenger jet. In FY2021-22, the cost of refuelling for domestic airlines has gone up by up to 90 per cent, increasing overall costs of airline operations. Varying levels of state taxes and the value-added tax (VAT) result in ATF being priced steeply.

All carriers that *Business Today* approached for this story said that the current volatility in global crude oil prices may be a good time for the government to bring jet fuel under GST. "Rationalisation of taxes will result in high growth for the sector, effecting a multiplier effect throughout the economy," says IndiGo's Dutta. Concur a SpiceJet spokesperson: "It's a long-standing demand that's critical for our industry. You can't have the highest costs and the lowest fares."

"A flat uniform tax rate on ATF—VAT or GST—given the volatility in global fuel prices, will certainly provide immediate relief for carriers on cash outflows. Ru-

pee depreciation and increase in crude prices can hurt the Indian carriers just as they are building back capacity and international air spaces are opening up," warns S. Vasudevan, Partner and Global Airports Lead, Aerospace & Defence, KPMG. Further, the 15-day cap by the government on pricing limits airlines' ability to offer dynamic fares. "If the government is regulating airfares—thereby restricting revenues—should it then also not cap input costs of the airline?" asks an airline CEO. "Pricing should be and must be driven by a free-market economy and consumer demand, and not superficially through external regulations."

"Due to impending competition from new players and more capacity coming into the domestic market, there may be small bouts of low fares, which may be used by airlines to create demand," says K.G. Vishwanath, Founder & Partner, Trinity Aviation Consultants. Industry insiders feel that established players like IndiGo, SpiceJet and Go First may yet resort to aggressive pricing to smoke out new competition.

Domestic air traffic improved sequentially to 7.69 million passengers in February 2022 as against 6.41 million passengers in January 2022, according to data from India's aviation regulator—Directorate General of Civil Aviation (DGCA). Bookings at the country's leading online travel aggregators have already revived significantly. "Overall travel sentiment is rising on a week-on-week basis and will hopefully surpass previously recorded numbers in the coming months. Within the airline segment, we have already touched 100 per cent recovery in comparison to pre-Covid-19 levels," says Vipul Prakash, COO at India's largest online travel agency, MakeMyTrip.

Together with passenger traffic, the market for aviation jobs is also seen to be reviving steadily since last October. "In the past 3-4 months, around 1,200 Frankfinn students have been placed in various domestic and international airlines. This number is bound to go up exponentially in the coming months," informs Kulwinder Singh Kohli, Founder & Non-Executive Chairman, Frankfinn Institute of Air Hostess Training. On March 24, Minister of State for Civil Aviation, General V.K. Singh, told the Lok Sabha in a written reply: "It is estimated that India has a requirement of around 1,000 fresh commercial pilots per annum over the next 5-6 years."

Gopinath, meanwhile, believes that India can easily sustain 30-40 airlines. "Those carriers needn't be large-sized but must be given ample opportunity for growth," he says. That would surely bring in many more flyers into Indian planes. It would also intensify the dogfight for market share in the Indian skies. **BT**

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