

Is there a Revival in Sight in the Future- Air India Saga 2– An Ailing Enterprise in the Indian Aviation Space?



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"The government was no longer looking to sell Air India, focusing instead on improving the airline's efficiency ahead of another attempt at a sale or a listing. The government is of the opinion that the plan for going ahead with the stake sale before the 2019 general elections may seem hasty, especially after no bids were received," - India's new aviation minister, Suresh Prabhu- as told to financial news provider Cogencis. Air India has been a case of lack of seriousness and will to succeed in a competitive market where market forces are in operation. The merger of Air India and Indian Airlines in 2007 was concluded as not helping recover the airlines losses and by 2009 it had become a basket case. The main options and alternatives that were offered to improve the situation were privatization, lease-outs, fleet-downsizing and Government bailouts. The other suggestions were, corporate revamps of the organizational policies and employee-cuts and refocused marketing. The global economic collapse in 2008 had thrown operational expenses out of gear along with the skyrocketing of oil prices. Competition from aggressive private airlines that took to flying on routes that once belonged to Air India, has resulted in a plummeting business. . The Indian government handed Air India 21 billion rupees (\$305 million) and the additional funds were an equity infusion to run the carrier. The airline, received a \$4.5 billion government bailout in 2012 to avoid shutting down. The current Government in office , had approved a Turnaround Plan (TAP) / Financial Restructuring Plan (FRP) for operational and financial turnaround of Air India. The TAP/FRP provides equity infusion of Rs. 30231 crores upto 2021 subject to achievement of certain milestones as laid down in the TAP/ FRP. Air India Ltd., with the overall support of the Govt as a turaround strategy. has initiated a number of steps in order to cut costs and losses. In June 2018 , the government had called off the proposed sale of a 76 per cent stake in Air India after no one showed interest to pick up stake in the loss-making airline. The assets that could be hived off include at least four subsidiaries of the loss-making carrier, including Airline Allied Services Ltd (AASL) and Hotel Corporation of India (HCI). After failing to sell its national airline, India is now pouring in more taxpayer money to keep it flying. Is there a revival in sight in the future? is key the question that we are trying to address.

Keywords: Operational and Marketing Challenges, VUCA (Volatile, Uncertain, Complex Ambiguous), Competitive Indian Aviation Environment, Service and Customer Focus

1. Introduction

India's civil aviation industry in the last three years is considered as a top performer and one of the fastest growing industries in the country. The third largest domestic civil aviation market in the world is India and it is expected to become the world's largest domestic civil aviation market in the next 10 to 15 years. UK the third largest air passenger market right now , will give way to India by 2025. The passenger traffic in India grew at 16.52 per cent year on year to reach 308.75 million. The CAGR growth was 12.72 per cent during FY06-FY18. The current data on May 2018 states that there are nearly 558 commercial aircraft in operation in India.

The Department of Industrial Policy and Promotion (DIPP) released the data about FDI inflows in India's air transport sector (including air freight), which as per the report has reached US\$ 1,658.23 million between April 2000 and June 2018.

The FDI Policy of the Government allows 100 % FDI ,under automatic route in scheduled air transport service, regional air transport service and domestic scheduled passenger airline.with a rider that any FDI over 49 per cent would require government approval.

In the next 5 years , India's aviation industry is expected to witness Rs 1 lakh crore (US\$ 15.52 billion) worth of investments and the Indian government is planning to invest US\$ 1.83 billion for development of airport infrastructure along with aviation navigation services by 2026.

The India's aviation industry will see key investments and developments as follows

- AAI is going to invest Rs 15,000 crore (US\$ 2.32 billion) in 2018-19 for expanding existing terminals and constructing 15 new ones.
- In June 2018, India has signed an open sky agreement with Australia allowing airlines on either side to offer unlimited seats to six Indian metro cities and various Australian cities.
- The AAI plans to develop Guwahati as an inter-regional hub and Agartala, Imphal and Dibrugarh as intra-regional hubs.
- Indian aircraft Manufacture, Repair and Overhaul (MRO) service providers are exempted completely from customs and countervailing duties.

Types of Aviation Services in India

Broadly divided into the 3 main categories:

1.Scheduled air transport service includes domestic and international airlines 2.Non schedules air transport service consists of charter operators and taxi operators 3.Air cargo service, which includes air transportation of cargo and mail

Scheduled Air Transport Service

It is an air transport service undertaken between two or more places and operated according to a published timetable. This includes, Domestic airlines which provide scheduled flights within India and to select international destination and International airlines that operate from scheduled international air services to and from India.

Non Scheduled Air Transport Service: It is an air transport service that may be on charter basis and/or non scheduled basis.

Air Cargo Services: These services involve air transportation of cargo and mail while being scheduled or non-scheduled basis with the operations to destinations within India. The operator has to take specific permission, for operation outside India, from Directorate General of Civil Aviation demonstrating his capacity for conducting such an operation.

2. Indian Aviation Market**Pre Independence Era**

Indian aviation industry started in December 1912 and its first domestic air route was between Karachi and Delhi. Indian air services opened this in collaboration with the UK based Imperial Airways. The first Indian airline three years later, was started a regular airmail service by Tata Sons Limited between Karachi and Madras without any backing from the Indian government. There were 9 air transport companies, during the Independence period, that were carrying both air cargo and passengers in the Indian territory.

The Post Independence and Pre liberalisation Era

The Indian government and Air India set up a joint sector company called Air India international in 1948 to further strengthen the aviation industry of India. The year 1953 saw the nationalization of Indian Airlines (IA) which brought the domestic civil aviation sector under the purview of Indian government. This was followed by the domination of government owned airlines till the mid 1990's in the Indian aviation industry. The Open-sky policy was adopted by the government in 1990 which was followed by other liberalisation policies with a rapid and dramatic transformation in the Indian civil aviation industry.

Post Liberalisation

Private airlines, since 2000, have entered into the aviation business in succession and many more were about to enter into the arena. Today, the Indian aviation industry is dominated by private airlines and low cost carriers like Indigo, Spicejet, Go Air etc. and Air India, the giant of Indian air travel industry, gradually lost its market share to private airlines.

Full Service Airlines v/s Low Cost Airlines**What is a Full Service Airline?**

These Airlines typically offer passengers in flight entertainment, checked baggage, meals, beverages and comforts such as blankets and pillows in the ticket price and the seats generally have more recline than a low cost carrier as well as more leg room. They also offer passengers the choice of economy or business class travel and on some flights premium economy and first class. Full service airlines will transfer baggage between flights and to alliance partners of which most full service carriers are a part (SkyTeam, one world, Star Alliance) and they often have a long history and are flag carriers for their countries of origin.

Low Cost Airlines

A low-cost carrier or low-cost airline (also known as a no-frills, discount or budget carrier or airline) is an airline that offers generally low fares in exchange for eliminating many traditional passenger services. The basis of operation of low cost airlines still remain the same, which is to provide the lowest price for the consumers by undercutting the price levels of legacy carriers. But because there are a number of airlines competing with each other some LCAs have modified their strategy in order to try and stand out from their competition.

The success of low cost airlines can be attributed to what is called a low-cost leadership position strategy adopted by these airlines. The goal of a low-cost leader is to contain the costs to the lowest relative to industry rivals and, in essence, to create a sustainable cost advantage over the competition. The key to this strategy is that cost is not equal to price". Fares: Unrestricted and low price.

Air India –Quick Facts

- Air India is the national carrier of India.
- Operates a fleet of Boeing and Airbus aircrafts.
- Originated as Tata Airlines in 1932 under J. R. D. Tata.

- Became a public limited company after WWII and was renamed.
- Controlled by the Central Government

Air India –Brand Legacy

- Logo is prominent and influenced by the Konark Chakra.
- The mascot was conceived by Bobby Kooka and Umesh Rao in 1946.
- The ‘Maharajah’ has completed 71 years in 2018 and is a very recognizable figure across the Globe.
- The mascot has won numerous national and international awards for humour and originality in publicity.
- Favourably received by millions of flyers and it reminds them of warmth and hospitality.

Air India –A Report Card with Key Redeeming factors

1. Asset Valuation

According to Ambit Equity, the sheer value of Air India’s fully owned planes, taking an average of \$45 million per aircraft (averaging out prices of narrow and wide-body planes and accounting for depreciation), would be Rs 20,000 crore. Its other assets (real estate alone is worth Rs 8,000 crore) can take its value up to Rs. 30,000 crore. It also has prime landing slots across the world. Air India’s market value could be much higher than Rs 40,000 crore while after providing for depreciation of assets, the value could be at least around Rs 27,000 crore. These figures estimated excludes the subsidiaries and other business activities which are four subsidiaries — Air India Express Ltd (AIEL), Air India Engineering Services Limited (AIESL), Air India Transport Services Limited (AITSL) and Alliance Air. While AIEL is valued at around Rs 8,000 crore, the value of AIESL, which has 31 hangers across airports, is pegged at Rs 3,000 crore and that of AITSL at around Rs 2,000 crore. Besides, Alliance Air which also commands a substantial valuation.

The Airindia valuation of 54,000 crore and thus exceeds its debt of Rs 52,000 crore and moreover the national carrier counts prime slots at various domestic and international airports, including at London’s Heathrow, among its intangible assets.

(Financial Express;As on June 2017)

2. Fleet Valuation: Exhibit 1

Category	Nos.	Seating Capacity	Owned	Finance Lease*	Sale and Lease Back	Dry Lease	Average Age (yrs.)
Boeing Wide-body Fleet							
B747-400	4	423	2		2		22.5
B777- 200 LR	3	238		3			8.4
B777- 300 ER	12	342		12			8.8
B787- 800	27	256	6		21		3.4
Total Wide- body	46	-	8	15	23		6.8
Airbus Narrow-body Fleet							
A320-231	4	168	3		1		4.8
A320-214	4	150	4				7.8
A320-214	5	180				5	2.5
A320-251N	14	162				14	0.5
A320	27	-	7		1	19	5.5
A319-100	3	144				3	12.1
A319-112	19	122	9	10			9.1
A319	22		9	10		3	9.5
A321-211	20	182	8	12			9.1

Exhibit 1 Fleet Valuation (As on 31st December 2017)

3. Money Making Sectors

The three profit-making subsidiaries of Air India are Air India Express (low-fare international carrier), AI Transport Services (ground handling unit) and AI-SATS (a 50:50 ground-handling JV with Singapore Airport Terminal Services). Air India Express reported a net profit of Rs 296.7 crore in 2016-17.

Turnaround plan for Air India by the Government

Air India has posted an Operating Profit of Rs.105 crores in the Financial Year 2015-16 .In the Financial Year 2016-17 also the company has shown steady improvement in its all round performance and it is expected that the company would again post an improved Operating Profit margin in the current year also.The Government had approved a Turnaround Plan (TAP) / Financial Restructuring Plan (FRP) for operational and financial turnaround of Air India. TAP/FRP provides equity infusion

of Rs. 30231 crores upto the year 2021 subject to achievement of certain milestones as laid down in the TAP/ FRP. As a part of the Turnaround Strategy for Air India Ltd., the company with the overall support of the Govt. has initiated a number of steps in order to cut costs and losses. **(This information was given by the Minister of State for Civil Aviation Shri Jayant Sinha in written reply to a question in Rajya Sabha.)*

The turnaround plan (TAP) for debt-ridden Air India, that will be announced by the government, will reportedly include transfer of the national carrier's working capital debt of Rs 30,000 crore and non core assets to a special purpose vehicle (SPV) as well as an additional Rs 2,056 crore capital support in FY19. According to a report in The Financial Express, the transfer of debt from its books would help Air India save around Rs 2,700 crore annually from the next financial year. The airline had taken a loan of Rs 48,447 crore with an average interest cost of nearly 9 per cent. The SPV would service the debt transferred to it by raising extra budgetary resources (EBRs) as well as monetising non-core assets of Air India.

Air India may not receive any support from the Centre in the next fiscal year, the report said, adding such a move would leave Air India to fend for itself, including servicing of the residual debt of Rs 18,447 crore, by improving operational efficiency and cutting wage costs. Air India, which survives on Rs 4,600-crore annual bailout package, serves a mere 12.4 per cent of the domestic passenger traffic, and competes with aggressive private sector peers like IndiGo, SpiceJet and Jet Airways who are constantly baying for passengers. In August 2017, Ministry of Finance had rejected Air India's demand for Rs 30,000 crore fund infusion plan and had instead suggested ways to reduce its debt burden by selling non-core assets. The national carrier is staying afloat on over Rs 30,000 crore bailout package extended by the previous UPA regime in 2012 for 10 years and out of the total bailout package, the airline has received Rs 27,195 crore so far. The government had called off the proposed sale of a 76 per cent stake in Air India in June, after no one showed interest to pick up stake in the loss-making airline. The assets that could be hived off include at least four subsidiaries of the loss-making carrier, including Airline Allied Services Ltd (AASL) and Hotel Corporation of India (HCI). There is also a plan to hive off the headquarter building of Air India in the national capital as well as various other land assets and buildings in different parts of the country for separate disposal. The Airline which also owns various artworks and artefacts too would be put up on the block. The government has set a disinvestment target of Rs 80,000 crore, in the current fiscal, which includes strategic and minority stake sale in CPSEs.

3. Conclusion

Need to address Major VUCA (Volatile, Uncertain, Complex and Ambiguity) problems like

- Fuel prices
- Long-haul and short-haul permits
- fifth freedom rights
- Government regulations
- Seasonal variance in demand
- Customer retention.

Need to Bridge Consumer and Provider gap in Air India.

According to a study conducted by International Journal of science and research

Overall satisfaction level of the passenger was moderate with a mean gap of -1.06 indicating that the passengers' expectation slightly exceeded the perception in most of the service quality. It can also be seen that all the service attribute under the Tangible dimension showed poor service quality except the appearance and attire of employees indicate positive gap of 0.42 of customer perception exceeding their expectation. Under Reliability, Assurance and Responsiveness dimensions, attribute perceptions are greater than expected. The airline has to concentrate in the area of mileage performance, frequent flyer schemes and travel related items like hotel, car rental etc. Finally the study revealed that the pilots are very experienced and skilled in their profession. After failing to sell its national airline, India is now pouring in more taxpayer money to keep it flying. Is there a revival in sight in the future? is key the question that we are trying to address.

Total Narrow- body	69	-	24	22	1	22	7.9
Total Operating Fleet	115	-	32	37	24	22	7.4
Grounded Aircraft							
-B747-400 - A320	111	-	14		07		
Total Grounded Aircraft**	12	-	5		7		

(Source:- Preliminary Information Memorandum Report by EY to GoI)

Note: Out of the total 69 aircraft owned/ on finance lease, 32 are owned and 37 are on finance lease which will revert to AI at the end of the period with a nominal payment.

**Includes the aircraft withdrawn from operations and awaiting de-registration

Table 1: Table showing Means of Customers' Perception, Expectations and Deviation

Code	Attribute	Mean Perception	Mean Expectation	Mean Dev. (Exp-Per)	Quality
T 1	Appearance, Attitude and Airline of employee	3.42	3.00	0.42	Good Service
T 2	Timely fare check-in and boarding	3.26	3.40	-0.14	Poor Service
T 3	In-Flight Meals and Cabin Facilities	2.78	3.54	-0.76	Poor Service
T 4	Variety and Quality of In-Flight meals	2.90	3.25	-0.35	Poor Service
T 5	Efficient baggage handling mechanism	3.24	3.25	-0.01	Good Service
B 6	Meet special needs of customers	3.50	3.38	0.12	Good Service
R 7	Flights check-in process	3.40	3.20	0.20	Good Service
R 8	Transfer service and efficient at departure airport	3.26	3.24	0.02	Moderate
R 9	Reliable online assistance	3.56	3.32	0.24	Good Service
R 10	Meet time commitments	3.19	3.00	0.19	Good Service
R 11	Keep seats free as needed	3.42	3.20	0.22	Good Service
R 12	Problems due to critical incidents	3.18	3.00	0.18	Good Service
A 13	Sincerity and patience in resolving problems	3.25	3.50	-0.25	Poor Service
A 14	Flexibility of flight breakdown	3.40	3.25	0.15	Good Service
A 15	Safety, performance of the Airline	3.60	3.50	0.10	Good Service
A 16	Employees instill confidence to passengers	3.16	3.20	-0.04	Moderate
A 17	Knowledgeable employees to answer customer questions	3.62	3.20	0.42	Good Service
R E18	Prompt attention to passenger special needs	3.00	3.25	-0.25	Poor Service
R E19	Capable to report to emergency situations	3.60	3.44	0.16	Good Service
R E20	Keep customers informed online event occurs	3.50	3.44	0.06	Good Service
R E21	Capacity to respond to delayed flights	3.33	3.20	0.13	Good Service
E 22	Care and concern for passengers	3.60	3.00	0.60	Good Service
E 23	Having a sound frequent flyer	3.16	3.38	-0.22	Poor Service
E 24	Having a sound on-board performance	2.96	3.00	-0.04	Poor Service
E 25	Having travel related partners, hotel, car rental etc.	2.90	3.22	-0.32	Poor Service
T 26	Direct technical skills and knowledge	3.49	3.10	0.39	Good Service
		34.38	33.14	1.24	

Dimensions are noted in the table: T – Tangible, R – Reliability, A – Assurance, R E – Responsiveness, E – Empathy and T – Technical.

Exhibit 2 Study Conducted by International Journal on Science and Research towards Studying the Consumer and Provider Gap of Air India
(Source: International Journal on Science and Research)

Financial Year (INR Mn)	2012-13	2013-14	2014-15	2015-16	2016-17
Operating Revenue	160,278	183,710	1,98,017	202,108	218,596
Other Income	443	11,098	8,115	3,995	3,181
Total Revenue	160,721	194,807	2,06,132	206,103	221,777
<i>Y-o-Y increase</i>	-	21%	6%	0%	8%
Fuel Expenses	83,630	94,407	84,491	58,454	63,376
Employee Expenses	32,547	31,522	24,666	23,455	25,578
<i>Employee Expenses % of Total Revenue</i>	20%	16%	12%	11%	12%
Other Operating	43,551	56,323	69,809	72,704	79,792
<i>Other Operating Expense % of Total Revenue</i>	27%	29%	34%	35%	36%
Other Expenses	13,078	13,431	10,761	10,159	13,804
Total Expenses	172,806	195,683	1,89,728	164,772	182,550
EBITDAR (Excluding Other Income)	-12,528	-11,973	8,289	37,336	36,046
<i>EBITDAR Margin (%) (Excluding Other Revenue)</i>	-8%	-7%	4%	18%	16%
EBITDAR (Including Other Income)	-12,085	-875	16,403	41,331	39,227
<i>EBITDAR Margin (%) (Including Other Income)</i>	-8%	0%	8%	20%	18%

Exhibit 3 Financials of Air India (Profit and Loss Statement for FY2013-17)

Aircraft Lease Rentals	5,322	6,980	10,983	11,738	18,267
EBITDA (Excluding Other Income)	-17,850	-18,953	-2,694	25,598	17,779
<i>EBITDA Margin (%) (excluding Other Income)</i>	-11%	-10%	-1%	13%	8%
EBITDA (Including Other Income)	-17,407	-7,855	5,421	29,593	20,960
<i>EBITDA Margin (%) (Including Other Income)</i>	-11%	-4%	3%	14%	9%
Depreciation	17,004	18,956	19,207	18,678	16,095
EBIT	-34,411	-26,811	-13,787	10,915	4,865

Financial Year (INR Mn)	2012-13	2013-14	2014-15	2015-16	2016-17
Financial Costs	38,690	40,713	40,283	44,740	42,359
Other Expenses	2,393	2,903	3,732	4,294	2,602
Prior Period Adjustments (Net)	825	-1,033	729	-609	-3,898
Profit/ Loss before Exceptional and Extraordinary Items and Tax	-76,318	-69,394	-58,530	-37,510	-36,198
Exceptional Items	11,199	465	-528	-	-12,982
Extra Ordinary Items (Net)	10,218	6,134	459	-858	-8,472
PBT	-54,901	-62,796	-58,599	-38,368	-57,652
<i>PBT Margin</i>	-34%	-32%	-28%	-19%	-26%
Taxes	-	-	-	-	-
PAT	-54,901	-62,796	-58,599	-38,368	-57,652
<i>PAT Margin</i>	-34%	-32%	-28%	-19%	-26%

(Source:-PreliminaryInformationMemorandumReportbyEYtoGoI)
(DebtSummaryon31stMarch2017)

Facility	Outstanding Amount (INR Mn)	Security
NCDs	1,36,000	GOI guarantee
Finance Lease	74,457	Part of facility secured by GOI guarantee and assets and part of facility secured by aircraft
Loans for aircraft (commercial and bridge) and engines and Pre- Delivery Payment Loans	37,142	Facility mix secured by either GOI guarantee or aircraft or assignment of contract
FRP Term Loans	1,21,354	Secured by 25 Aircraft and 12 immoveable assets and pari-passu charge on current assets

Short Term/Working Capital Loans	1,15,520	Facilities secured by a combination comprising of one or a mix of following securities <ul style="list-style-type: none"> • GOI guarantee • 25 Aircraft and 12 immoveable assets • Letter of Comfort from GOI • Cash flows TRA, 3 Aircraft • Fixed Deposit
Bill Discounting Facility	3,340	• No tangible security. With recourse to PSU OMCs through tripartite agreement.
Total	4,87,813	

(Source:- Preliminary Information Memorandum Report by EY to GoI)

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