

# The sky's the limit

The past year has witnessed a boom in the aviation business. Prices of tickets have fallen dramatically, passenger traffic has risen and several entrepreneurs are awaiting takeoff.

**Nand Kishore** reports

**A**irlines and the aviation business are undoubtedly the flavour of the month in India. After long years of lagging behind the global average, the aviation industry is grabbing headlines with new airlines revving up for takeoff and a massive airport and aviation infrastructure upgrade on the anvil. There is a buzz in the air about the business and the ministry of civil aviation has been in the thick of action.

New liberal agreements with various

governments have been signed allowing international airlines greater access to Indian skies. A decision has been taken to allow the two privately-funded domestic airlines, Jet Airways and Air-Sahara, to fly on international routes. (Jet went public in March). This act has ended the duopoly in the business. Until now, just the two government-owned carriers Air-India and Indian Airlines flew to foreign destinations.

The result of these liberal measures is that conservative corporate czars are taking the plunge into the high risk, high sex-

appeal industry, which has a global reputation of wiping off large fortunes. The increased activity has resulted in a barrage of orders for aircraft and engine-makers as well as loads of other rotatable and service vendors.

According to industry estimates, aircraft orders worth over \$12 billion are expected to be placed in the next five years. And almost a matching amount will be invested in upgrading airports. It is no surprise that venture capital and private equity firms as well as investment bankers are keen to bite into the airline pie. The overwhelming response to the aggressively priced Jet Airways IPO, through which the airline raised \$400 million, a lot of it from foreign investors, is just one example of the enthusiasm for Indian aviation paper. Commenting on Jet Airways in its report, the French investment banking firm CLSA forecasts a compounded average growth in earnings of 18 per cent between 2005 and 2007.

That interest is also reflected in the case of the Delhi-based SpiceJet, a low-cost airline promoted by the Royal Holdings group. The airline has seen its share price zoom from 13 cents to \$1.40 in less than six months, a huge appreciation especially considering that the airline has yet to take off. SpiceJet plans to launch in the second half of this year and has attracted international financial institutional investors like Citigroup, Goldman Sachs and ABN Amro, which collectively hold about nine per cent of the company.

The boom in the business is a far cry from the situation that existed since the mid 1950s. That was when all private carriers were nationalised, including the privately-owned international airline Air India. Domestic carriers were clubbed to form Indian Airlines, which largely confined its operations to domestic destinations.



PHOTOGRAPH



**GLAMOUR IN THE AIR:** Vijay Mallya shows off his cabin crew/models for Kingfisher Airlines

Nationalisation resulted in the creation of powerful unions, which held the airlines and the public to ransom. It also led to perhaps the highest ticket prices anywhere making air travel a veritable luxury. This duopoly existed until 1992, when the Indian government decided to open its skies. In the first flush of opening the skies, several private companies took off, but they could not sustain themselves financially.

Of all these airlines, the Mumbai-based Jet Airways' story has been one of spectacular growth since the airline began operations with two aircraft, 12 years ago. It now flies to 42 destinations in India and has a market share of 43 per cent of passenger traffic, making it the number one domestic carrier. With a fleet of 42 aircraft (34 Boeing 737s and eight ATR 72s) and quality service, Jet has won international acclaim and is today regarded as one of the best airlines in the world. With an average fleet age of 4.2 years (one of the youngest in Asia), it is all set to launch its international operations to Singapore, Kuala Lumpur, London and New York in the next one year.

The other emerging success story is India's first low cost airline, the Bangalore-based Air Deccan. The carrier was able to attract the best global funds when it did roadshows for private equity last year. "There was a huge amount of interest from investors," says Capt G Gopinath, the CEO

of Air Deccan, whose motto is 'Everyone can fly.' A deal was finally struck with Indian venture capital fund ICICI Ventures and the US firm Capital One, which put in \$50 million into the airline.

Like its counterparts around the world, Air Deccan is making waves with its bare-bones service as well as its rockbottom \$11 fares on domestic Indian routes. Even a glass of water is charged on board its flights, in a country where hospitality is a tradition. When faced with a barrage of letters from passengers, Capt Gopinath said "Low-cost carriers are like buses with wings and we have to be ruthless about every element of the cost." Air Deccan's success has however proved that there is a huge market for such a service, free water notwithstanding.

At the other end of the spectrum is the proposed Kingfisher Airlines promoted by the 'live life kingsize' liquor baron and member of Parliament Vijay Mallya. Mallya is rocking the establishment by hiring models as cabin crew and high profile fashion designers to do up his aircraft. His 'funliners' will be the first in India to provide 10 channel video and audio entertainment on every seat. Despite all these frills, he claims fares will be about 20 per cent lower than his full-service rivals, Jet Airways and Indian Airlines. Kingfisher will follow the JetBlue model of low cost airlines and will have the lowest operating costs in the market, he claims.

The relentless competition from private air carriers on the domestic routes has forced Indian Airlines to pull up its socks. Strikes and walkouts are things of the past; the once-truculent staff are now busy attending customer-oriented refresher courses. The airline has undergone a turnaround in its service standards. It has also acquired marketing pizzazz: It has slashed fares and introduced APEX rates.

Kingfisher COO Alex Wilcox, who has incidentally been hired from JetBlue, says, "The Indian domestic market is begging for more capacity. Trying to make a success in this market will be like being a one-eyed man in a blind world." Statistics bear Wilcox out. Domestic flights are very often overbooked and seats are difficult to find in the busy season. The Mumbai-Delhi trunk route is the busiest, with 25 flights a day between the four airlines and over 50,000 seats up for grabs every week. Bangalore's IT companies makes it India's second-hottest destination, with the Mumbai-Bangalore route being the second busiest.

Coupled with a lack of capacity, the other lure for airline entrepreneurs is the enormous growth in traffic in the region in contrast to that in the rest of the world, where growth has plateaued. Air traffic in the Asia-Pacific and India, according to IATA, has shown double-digit growth even as the numbers are stagnant elsewhere. It shows a worldwide growth of just four per cent with growth led by the Asia-Pacific region. Indian airports like Bangalore have, however, reported a growth of 50 per cent in passengers in the last one year. Data from the Airports Authority of India shows that between 2002 and 2004, domestic air traffic increased by a whopping 37 per cent; from 28 million to 38.38 million.

The burgeoning growth in numbers in domestic travel is also reflected in international sectors. While part of the

**Big ticket investments till 2009**

Airline	Aircraft orders	Cost*
Indian Airlines	43	4.0
Air-India	50	5.0
Kingfisher	34	1.7
Air Deccan	42	1.7
Jet Airways	16	0.2
<b>Total</b>	<b>230</b>	<b>12.6</b>

\* \$ billion Source: Industry estimates



**NO FRILLS:** Captain Gopinath's Air Deccan, with its bare-bones service, is a success story

**GREAT EXPECTATIONS**

THE SUDDEN boom in Indian aviation has caught even the normally market savvy global aerospace manufacturers unawares. At the Bangalore air show in February, both Boeing and Airbus said they had underestimated Indian growth.

Air travel in India grew 20 per cent last year and Boeing has raised its 20-year market forecast for aircraft purchases from \$25 billion to \$35 billion. Both Airbus and Boeing are waiting for the next big order, expected from Air India. The airline is evaluating medium and large capacity aircraft and is expected to order 50 wide-body jets, worth almost \$5 billion at list prices.

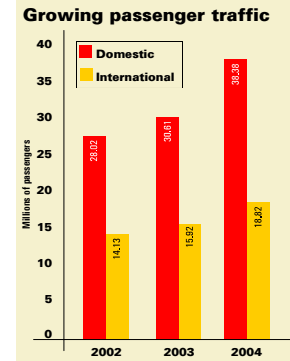
Airbus has been the beneficiary of a large chunk of the new orders announced in 2004. The European consortium will sell about 100 planes to Indian Airlines, Air Deccan and Kingfisher Air, and now says it wants to give something back to India by setting up a state-of-the-art training-cum-maintenance centre. The company is awaiting government clearance for Indian Airlines' \$4 billion order for 43 Airbus aircraft, a decision that was made two years ago.

surge is due to business travel with the economy opening up, a lot is due to Indians travelling abroad on leisure and a rise in tourist arrivals. More than three million foreign tourists visited India last year and the tourism industry grew 8.8 per cent over 2003, the highest growth rate in the world. Hence, global carriers are vying with each other to increase their frequencies in multiples. Air France has signed an agreement to augment its services from 14 flights per week to 35. Singapore Airlines wants to quadruple its flights from 51 per week to 216. And Richard Branson not only wants more flights for his Virgin Atlantic, he wants to buy into an Indian carrier. That unfortunately is not possible at the moment since the investment policy for aviation precludes foreign airlines from having stakes in the industry. But a revision of the policy is due.

Such a growth in numbers will inevitably add to the crush at airports. The major ones are already bursting at their seams, both in terms of passenger facilities and parking slots. The minister for civil aviation Praful Patel has promised that 2005 will be the year of airports, in terms of priority accorded by his government. A \$9 billion

**On the Web**

- Indian Airlines: [www.indianairlines.com](http://www.indianairlines.com)
- Jet Airways: [www.jetairways.com](http://www.jetairways.com)
- Air Deccan: [www.airdeccan.net](http://www.airdeccan.net)
- Kingfisher Airlines: [www.flykingfisher.com](http://www.flykingfisher.com)



Source: Airports Authority of India

upgradation programme for airports and the privatisation of the Mumbai and Delhi airports are on the agenda.

Even if the wheels of government have hitherto been grinding very slow, the industry is optimistic that given the current momentum, things will hasten. "You cannot keep the cork in the bottle anymore", says Sydney-based Peter Harbison, who runs the Centre For Asia Pacific Aviation, and is an avid India watcher. CAPA is advising several start ups on their business plans for India and has predicted that the fleet strength of airlines in India will move up from 175 currently to above 400 aircraft in another five years.

"About 15 million more seats will be added in the next one year", says CAPA's India representative Kapil Kaul. There will be five to six large national airlines and a similar number of regional players, he says. Part of the expansion will also be spurred by the expansion plans of Indian Airlines and Air-India, which have activated their dormant plans. The flag carrier Air-India is set to fire the first salvo with its own low cost subsidiary Air India Express, which will operate on the India-Gulf routes.

Such addition to capacity spells big business opportunities to aircraft companies and others in related fields (see box). It also means that ticket prices will keep coming down, which will in turn spell more business. For the aviation industry, the growth cycle has truly begun.