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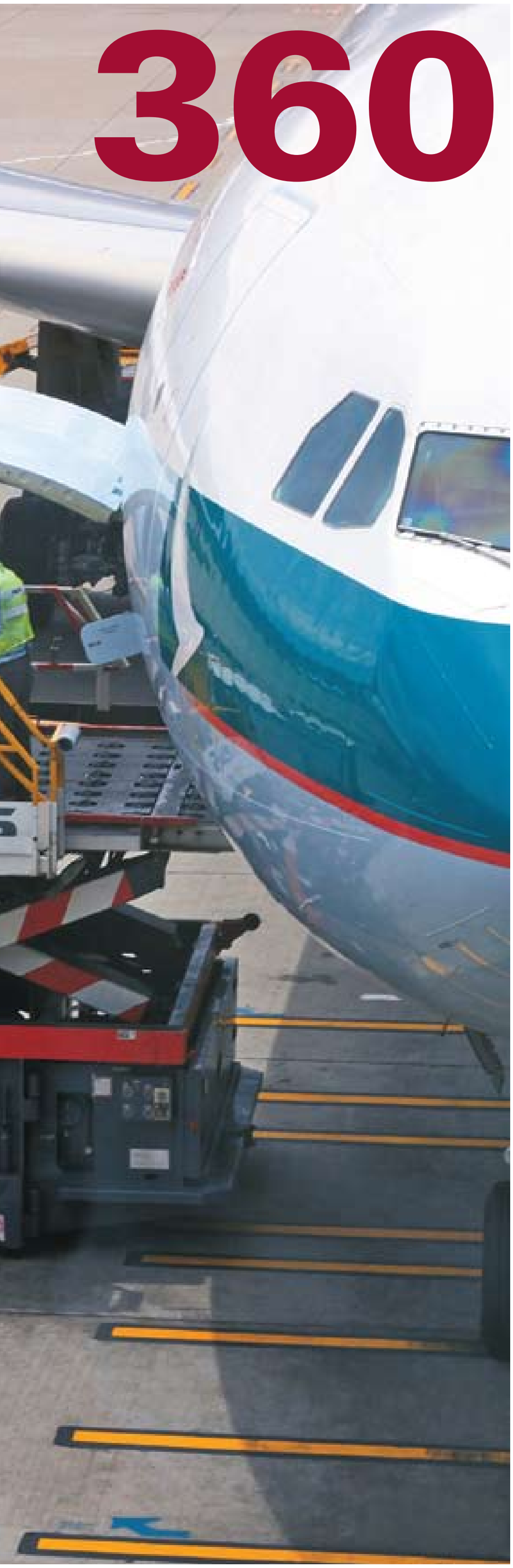

360 FOCUSSING ON DOMESTIC CARGO

Low-cost aviation pioneer Capt G.R.Gopinath has launched a new cargo and logistics company, Deccan 360, which aims to penetrate markets in the hinterlands of India and integrate them with Asian business hubs such as Hong Kong and Dubai.
A report by **R. Nagesh.**

A former Indian Army captain, G.R. Gopinath launched India's first low-cost carrier (LCC), Air Deccan, with its first flight taking off from Hyderabad to Vijaywada in August 2003. It was a time when the Indian civil aviation sector was at the take-off stage, with several private players entering the aviation space. Unlike other airlines, Gopinath launched services to tier-II cities such as Visakhapatnam, Madurai and Mangalore from hubs such as Bengaluru, Chennai and Hyderabad. He also slashed airfares, enabling millions of ordinary, middle-class Indians to travel by air on holidays, instead of taking trains. And towards the end of 2007, Capt Gopinath sold his stake to Kingfisher Airlines, part of Vijay Mallya's UB Group.

The two airlines were later merged and Air Deccan was last year rebranded as Kingfisher Red. Gopinath has since been involved in incubating and developing Deccan 360, a new cargo and logistics airline. "Our goal is to provide connectivity to as many markets within India and also connect these domestic markets to one of the fastest-growing trade lanes in the world – Dubai and Hong Kong," says Gopinath in an interview. "We have already launched our first phase of operations (freight) connecting India to Hong Kong and Dubai, making us the first Indian cargo airliner to launch international freight operations."

'THE POTENTIAL FOR AIR FREIGHT IN INDIA IS HUGE'

What was the raison d'etre behind your decision to start a cargo and logistics company?

While running Air Deccan it had become increasingly clear to me that there was a massive supply-chain gap that needed to be plugged. In one very harrowing incident, one of our Airbus 320 aircraft became inoperational for several days waiting for a crucial spare part to be flown in from Hong Kong/Singapore to Guwahati via Kolkata and Delhi.

It turned out to be a logistics nightmare as there were no cargo airlines in India that had the capability to fly the spare part, and international companies like FedEx flew only to major cities such as Delhi and Mumbai. We had FedEx, we had UPS and Blue Dart/DHL. But their focus was taking India to the rest of the world, not bringing India to India.

At present foreign freight carriers are operating to India, but they are allowed only to bring cargo from outside the country, not from within. We are looking at that market. We should be able to move a rig for an oil company in Assam, provide spares for a car maker in Pune, provide markets for fishermen in Kerala, apple growers in Himachal Pradesh and effectively simplify logistics for businesses across the board.

What is the potential for growth for this business in India?

Despite a trillion dollar GDP, there are only seven dedicated cargo aircraft for India, which have just 120 tonnes of capacity for the entire country — run by companies like Blue Dart and DHL. The domestic express cargo business in India is worth US$500 million, as compared to US$5 billion in China and US$35 billion in Europe.

The Indian air cargo market is primarily being served as a by-product of passenger fleet and infrastructure. It is but obvious that if India's GDP growth (achieved despite a global recession) is to be sustained and high-value manufacturing verticals like electronics, automobiles and pharmaceuticals are to make a mark in every region of the country, we need to have far greater air cargo capabilities.

India is already a production and outsourcing destination, and manufacturing is expected to rise remarkably in industries such as apparels, automobiles, pharmaceuticals, FMCG, etc. More and more industries are moving into smaller cities and the interiors. The opening of banking, insurance, telecom and retail sectors would further boost the need for value-added express services in India.

They need logistics support and that is what we aim to provide. And at Deccan 360 we are committed to creating a modern supply chain where it does not exist. So the potential is huge. The International Air Transport Association (IATA) predicts that 57 per cent of the world's air freight would be moved within Asia by 2011, and India is sure to play a major role in this growth.

Are you looking primarily at India or do you also plan to extend your operations abroad?

As we have large aircraft, we need to optimise their use to at least eight hours a day – that is why we decided to touch some key international routes. However, our focus will be domestic cargo. We will be providing connectivity to as many markets within India and also connect these domestic markets to Dubai and Hong Kong.

Our commercial operations were launched on May 28, 2009, from Delhi to Hong Kong, marking the first phase of our freight operations and making us India's first cargo airline to launch international freight operations. In less than a month we also launched operations connecting India to Dubai.

What kind of investments have you made in this new venture?

I have already bankrolled US$25 million in Deccan 360. I am looking at raising upto US$30 million in a couple of months. The company will raise another US$25 million through equity dilution. However, we will look out for the right market conditions. We have expressions of interest from various investors and we will take a decision on them.

How big will your fleet be and how do you propose funding the acquisitions?

To support our operation plans, we will deploy three Airbus A310 freighter aircraft with a capacity of 35 tonnes each, along with six small feeder ATR 42 aircraft, which will together offer capacity greater than the current capacity in the market.

The first A310 has already been inducted and two more Airbus A310 aircraft will arrive soon. Our wide-body freighter can offer a service that can carry goods up to 96" height by air and also products that require temperature control within the 5-26 degree celsius range. We have decided to go in for large aircraft because of lower costs of operation. The operational cost per kilogram is lower by 20 per cent on an Airbus as compared to a smaller aircraft.

Which model are you considering for your India operations?

Deccan 360 will be the first Indian cargo airliner to adopt a hub-and-spoke model. We are setting up our state-of-the-art express cargo hub, spread across a mammoth 100-acre campus, strategically located at MIHAN (Multimodal International Hub Airport at Nagpur), Nagpur. This will be the core of our hub-and-spoke distribution model.

Additionally, I have signed an MoU with the Bengaluru-headquartered GMR Group for setting up express cargo operating facilities at Delhi and Hyderabad airports, which together with the central hub in Nagpur will form an extensive state-of-the-art multimodal (surface and air) storage, transportation and delivery network.

Which sectors are you targeting?

Well, Deccan 360 is the first Indian wide-body, all-cargo carrier to provide overnight deliveries from south China through Hong Kong to major markets in India – namely Delhi and Chennai – and Dubai, the gateway to the Middle East, the same day.

Manufacturers and suppliers could send their end-of-day production by midnight from Hong Kong and have the goods available in Delhi, Chennai and Dubai by 0300am to 0930am the same day. This will facilitate Indian manufacturers and buyers to plan import of their high-end material, components 'just in time' and reduce inventory-carrying costs.

Both warehousing and inventory are significant costs for companies and we are delighted to be in a position to help them reduce their costs.

Will you consider diversification – forward or backward integration – over the coming years?

Nothing is impossible and no element can be eliminated as a future strategy in business. However, presently the strategy of Deccan 360 will be similar to that of Air Deccan. In Air Deccan, we had outsourced all activities to outside agencies to ensure nationwide growth and cost containment.

Any plans to list the company on the stock exchanges, or to enter into joint ventures or strategic alliances with global players?

Too early to comment. Well, as I said in business anything and everything is possible and factored in.

'LOW-COST WILL RULE THE AVIATION INDUSTRY'

FOR the pioneer of budget airlines in India, low-cost aviation is a concept that is close to Capt G.R. Gopinath's heart. Though he sold off Air Deccan to Vijay Mallya's Kingfisher Airlines – Air Deccan now flies under the Kingfisher Red brand – Gopinath is still a firm believer that the low-cost airline model is best suited to the needs of the Indian market. His views on low-cost carriers (LCCs) and budget airlines:

The low-cost airline model is best suited to the needs of the Indian market – it is an inclusive business model, which is robust and scalable. However, over the past year we have seen several instances of airlines coming together, which has resulted in the fares of low-cost airlines becoming almost indistinguishable from those of full-service airlines. Low-cost carriers would do better by concentrating on filling up planes and opening up new markets.

Ryan Air, Europe's largest low-cost airline, has been enjoying the highest net margin of 20 per cent to 22 per cent for the last few years. Clearly, the airline with the lowest revenue per seat has the highest margin, and is the world's most profitable airline.

I am not saying that the low-cost airline model is better than the full-service model, but merely that in the long run, while low-cost airlines can strengthen their cost-efficiency in various ways and can effectively deal with different scenarios ranging from recessionary trends to increase in cost, full-service airlines cannot because their business model simply does not allow them to.

The low-cost business model is not just about cutting costs by saving some fuel or a few overhead expenses; fundamentally the low-cost model is all about innovation, extremely high efficiency, very high asset utilisation and stimulating market demand by targeting an inclusive consumer base.

A low-cost airline works to achieve high-density seating by flying 180 passengers in a single-class configuration on an Airbus 320 aircraft, while a full-service airline offers 145 seats on the same aircraft.

An LCC has lower ticket distribution costs (20 per cent to 30 per cent lower than full-service airlines) through intensive technology interface with the end-consumer, eliminating the need for travel agents and expensive global distribution systems (GDS) and by tapping avenues for ancillary revenue (for example, sale of food or travel insurance), which incidentally converts costs into revenue.

The low-cost model eliminates the need for frills and intermediaries, ensuring not just increased consumer access, higher aircraft utilisation and quick turnaround (based on innovations and intensive technology engagement), but also a lower cost base for the business resulting in lower fares for the consumer.