Good News for Indian Aviation at Last !

The good news hasn't ceased streaming in for India's stressed aviation sector.

Union Civil Aviation Minister Ashok Gajapathi Raju has said that the new NationalCivil Aviation Policy is likely to be out next month. "At present, we are working on the policy. We have received many suggestions on the draft policy and we are hopeful that new policy will be out in April," Raju said.

He was speaking to reporters after addressing a private function at Machilipatnam on March 24, 2016. The minister said the country needs four modern airports, two on West coast and as many on East coast. Raju said that his ministry would consider proposals for new airports if governments concerned to come forward to provide land to set up such facilities as land is the State subject.

If all that wasn't good enough, a new study by industry body Federation of Indian Chambers of Commerce (FICCI) and Industry and consultancy firm KPMG has envisaged that India is going to become the world’s third largest aviation market by 2020 after the US and China. This is even better than the International Air Transport Association’s (IATA) prediction last year that India would be the third-largest market by 2026.

“India is the ninth largest civil aviation market in the world with a market size of $16 billion and aims to become the 3rd largest market by 2020 and the largest by 2030,” the report said. “This is possible due to a host of factors, including increased competition, low-cost carriers, modern airports which are expanding, improved technology in both airside and city side operations, foreign direct investment and increased emphasis on regional connectivity.”

Trends of Growth

Between April 2015 and January 2016, the number of international passengers flying to and from India grew by 7.6%, while domestic passenger traffic was up 20.6%. By 2020, India’s airports are expected to carry as many as 369 million passengers compared to the current 190 million. As of today, just a little over 2% of Indians take to the skies. (*See:* Global Charm)

The huge potential has now forced global aircraft makers to woo Indian companies to buy more planes. According to Boeing and Airbus, the world’s two largest such firms, India is expected to order more than 1,600 aircraft over the next 20 years.

“India’s growth can help offset the slowdown in other parts of the world,” Dinesh Keskar, senior vice-president, Boeing, told Reuters on March 17. India’s largest airline by market share, IndiGo, has already finalised orders for 250 aircraft with Airbus, touted as the world’s largest-ever order by the number of planes. SpiceJet, another low-cost airline, is also in talks to buy some 100 aircraft.

Private Involvement

Till 1990s, India’s civil aviation industry was mainly a state-run affair. When the government decided to liberalise the aviation sector for private participation, several airlines came up. Some are enduring the business till today while some have collapsed.

Over the past 20 years or so, 17 airlines have been shut down – the most significant one being Kingfisher Airlines. Companies have lost a staggering Rs 60,000 crore during this period.

Much of this loss is largely attributed to the high cost of air turbine fuel (ATF), which is almost 60-70% more expensive in India than the global average price of ATF. “Since international ATF prices are low, at times an all-expense paid trip flight to Thailand or Malaysia turns out cheaper than flying within India. India's distorted pricing policy on ATF has actually done more damage to Indian trade and tourism than good," the report said.

"In 2005, there were four main carriers – Air India, Indian Airlines, Jet Airways and Air Sahara, all operating full-service models – plus several small airlines. By 2015, there were seven national air carriers – IndiGo, Jet Airways, Air India, SpiceJet, GoAir, Vistara and AirAsia India. In addition, regional carriers such as Air Costa, Air Pegasus and Trujet provide the much needed regional connectivity," the report said.

In November 2015, IndiGo came up with the country's biggest Initial Public Offering. (*See*: IndiGo) Simultaneously, the Narendra Modi government unveiled a new aviation policy that seeks to ease operations for airlines and lower the cost of flying.

After years of incurring losses, this year India's three big airlines are going to show operating profits.

Surprise cheer. For the first time since 2007, the state-owned Air India will come out of the red and show some operating profits.

What will happen to Air India ?

While other airlines continued to prosper, Air India struggled. (See: AI). Air India has been incurring losses in millions every financial year. The government financially supports the airline. Air India has been able to survive only due to the government's financial aid package. Sometimes, it was unable to carry out maintenance due to cash crunch. (*See:* Air India unable)

"The government may consider selling some of its stake in loss-making national carrier Air India," news agency NewsRise Financial has reported.

"The government plans to form a four-to-five member panel, made up of officials from the finance ministry, the civil aviation ministry, the cabinet secretariat and the company, to consider selling a stake in Air India to meet its revenue target from state asset sales next fiscal year, according to NewsRise.

Sources in the government, however, told that the government has not taken any such a decision so far. Sources in Air India said that the government will not sell its stake in Air India. The government is the sole owner and is implementing a turnaround plan for its financial revival. Air India was in the midst of a turnaround and any talk about privatisation and stake sale would be useful only when it started making a profit.

Indebted Air India last made an annual profit almost a decade ago. Air India's market share has declined over the years in the face of competition from private airlines and according to latest data stands at 15.7 per cent, behind IndiGo and Jet Airways.

“The government will have to decide to divest 49 percent in the company as foreign airlines cannot pick up stake in an Indian carrier”, said Kapil Kaul, CEO – South Asia, CAPA. He,

however, added while privatization of Air India – whether it is 49 percent or 51 percent – is a must even though he was doubtful it would be done. “After all, how long can you fight taxpayer money with private money,” he said. Kaul added that now was a good time to prepare a roadmap for the national carrier’s privatization given that it seems to be on track for posting profits.

Air India is in the process of evaluating several options to bring down the government’s stake once it turns profitable. The national carrier expects to turn profitable in 2018-19, two years ahead of the original turnaround target of 2020-21 through better revenue generation and restructuring of the Rs 10,000-crore term loans with government guarantee backed non-convertible debentures.

One of the options being considered is conversion of debt into equity such that the government’s stake comes down to 51 per cent. Aviation ministry officials said in every internal meeting of Air

India, privatisation was discussed at length, though there is no clarity on how the airline plans to rope in private investors. Air India has total debt of around Rs 5,00,000 million.

State Bank of India is lead banker in the 26-member consortium to Air India and includes Punjab National Bank, Bank of Baroda and Central Bank of India.

According to sources, the lenders might be asked to exercise this option at a stage when the airline shows better performance. “There are several plans which include asking the banks to convert debt into equity but that will work out only when the airline is profitable,” said one official. However, he said the plan was at a very nascent stage and nothing has been finalised.

Air India plans to reduce its losses by 40 per cent to Rs 2,000 crore in FY17 and a financial restructuring plan is underway to achieve this goal. Lower oil prices are helping the ailing carrier’s turnaround plan. Earlier, half its routes were loss-making but in the April 2015 to January 2016 period, 75 per cent of routes have turned profitable.

In an interview to the media earlier, chairman and managing director Ashwani Lohani had said: “There is a huge backlog of past loans and we are servicing that debt. Even with all these loans, we are targeting a net profit by FY18.”

When asked about the airline's privatisation plan, Lohani said that he believed in the strength of the public sector. "The company was in much better shape, thanks to soft crude oil prices and better operating mechanism. We are looking at consolidation. We are now looking at growth. We are now talking about more flights. We are talking about aggressive revenue management. To put it simply, there is an attempt to run Air India like a commercial organisation," he said.

However, the ministry has denied any proposal to offer its equity in Air India to banks in a debt-swap agreement. "No such move," Civil Aviation Secretary R N Choubey said, in a text message.

A committee headed by Rakesh Mohan, former deputy governor of the Reserve Bank of India, had recommended earlier that the government reduce its stake in AI to 26 percent over five years.

The National Transport Development Policy Committee, set up in 2010, had termed AI’s financial situation as precarious, It had said that

- the airline would need to be recapitalised,
- the company be restructured organisationaly,
- its working capital debt burden be written off and
- some divisions are made independent and corporatised.

A recent report jointly prepared by FICCI and KPMG had suggested that the government should sell its stake in Air India. It should use the Rs 30,000 crore that was earmarked for Air India to subsidise air travel of common man by lowering jet fuel price. The report claimed that the airline business requires split-second operational decisions which is not possible in the government environment.