Why Air-fare War may be a Case of Bad Economics for Jet Airways

Jet Airways (India) Ltd – led by the veteran entrepreneur Naresh Goyal – posted huge losses in the March and June quarters.

During this period, its revenue grew very slowly as compared to other domestic listed carriers – IndiGo, & Spicejet.

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June quarter increase in revenue:

IndiGo – 12% to ₹6,511.97 crore,
SpiceJet – 9.7% to ₹2,199.7 crore, and
Jet Airways – 0.98% to ₹6,257 crore.

June quarter finance costs:

SpiceJet – ₹30.24 crore,
IndiGo – ₹92.73 crore, and
Jet Airways -₹252 crore.

The management of Jet Airways, currently in a serious financial crisis, is trying to evaluate all possible options to raise funds and expedite its turnaround strategy of reducing costs and enhancing revenue. Its employees' cost is higher than that of the miserably sick Air India. Finance and aircraft maintenance costs are also high due to higher debt and older fleet. Jet Airways directors met and approved a turnaround plan for the airline, which includes a cost reduction programme of more than ₹2,000 crore over two years by cutting corners such aspects as –

- Maintenance,
- Marketing, distribution and sales,
- Optimisation of fuel rates,
- Liabilities arising out of debt and interest,
- Better pricing,
- Improvements in management of inventory,
- Leveraging its JetPrivilege Programme,
- Enhancement of crew, and manpower productivity,
- Capital infusion and
- Fleet simplification.

If this turnaround plan bears fruit, it may reduce the finance costs significantly.

ATF prices along with a weak rupee have severely affected the airlines operating in the country. In addition, a cut-throat competition between the airlines has prevented Jet Airways' need to raise fares accordingly.

Fuel expenses in the June quarter:

IndiGo – + 16% to ₹2,715.64 crore,
Jet Airways – + 12% to ₹2,451 crore.
SpiceJet – + 12% to ₹812.44 crore

As per Jet Airways' chief financial officer Amit Agarwal, Jet

Airways is on track to cut non-fuel costs by 12-15% over the next 18-24 months. He also says that price wars are not beneficial for airlines.

July 2018 domestic market share figures:

IndiGo – 42.1% carrying 4.86 million passengers
Jet Airways + JetLite – 15.1% carrying 1.74 million passengers
SpiceJet – 12.3% carrying 1.42 carrying million passengers

Jet Airways tries to avoid a fare war with others as part of its strategy. The decision of not matching the fares of competitors on a few routes has impacted the passenger load factor of Jet Airways. The airline's passenger load factor declined from 86.8% in the March quarter to 80.4% in the June quarter, Load factor also fell from 81.7% in the year-ago period.

Aviation experts say that air-fare war for high-growth passenger services is understandable, but there is no pressing need, as such, for the funds-starved Airline companies to please its customers. They must maintain their own house in order first. Air-fare changes must be in sync with the fuel price.

As per aviation analysts, the cost cutting targets not easy to achieve due to the air-fare war for the sake of capturing market share. They conservatively estimate CASK (ex-fuel) to fall 10% to ₹2.9/km by FY20 for Jet Airways.

Jet Airways has inducted more fuel and cost-efficient B737 MAX aircraft. It is racing against time in the current adverse industry scenario of rising competition amid cost pressures. It acknowledges the fund crunch it is presently facing and its resources have become very thin required for its various ambitious plans including those for the lingering fare war. It has to sell JetPrivilege loyalty and rewards plan that has about 8.5 million members.

Jet Airways hopes the pricing environment to settle and the yields to improve in the coming quarters.

Hopefully that happens soon !