

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.

Also Read : Jet Airways emerge

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
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.

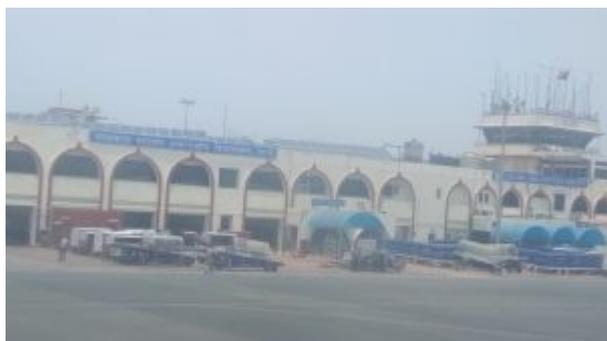
Hopefully that happens soon !

UDAN : Contrasting State of Affairs at Bokaro, Jharkhand and Darbhanga, Bihar

The Union Civil Aviation Minister Suresh Prabhu has said on social media Twitter that Bokaro airport in Jharkhand will start functioning fully by this year end and will have direct flights to Kolkata and Patna under the government's Ude Desh ka Aam Nagrik (UDAN) scheme. This development would contribute significantly towards enhanced connectivity and economic growth in this region.

The UDAN-RCS scheme seeks to connect unserved and under-served airports in the  country with fares capped at Rs 2,500 for one-hour flights.

Also read : New Civil Aviation Policy could have Made Air Fares 2% Cheaper



Jharkhand Chief minister Raghubar Das and Union minister of state for civil aviation Jayant Sinha recently laid the foundation stone for the expansion of Bokaro airport. Soon, commercial flights for

Calcutta and Patna are planned to be launched. An MoU has been signed between Steel Authority of India Ltd and Airports Authority of India (AAI) in New Delhi earlier this year.

The AAI would operate and manage the flight operations. Upgrading of the Bokaro airport, however, will require an estimated investment of further Rs 52.57 crore. Its 1,673-metre long and 30-metre wide runway will allow an 80-seat aircraft. Other development works like the setting up of an expandable low-cost terminal building having six counters and parking facility for 20 cars are in the process of being awarded. A control tower, watch towers and precision approach path indicator are also on the list.

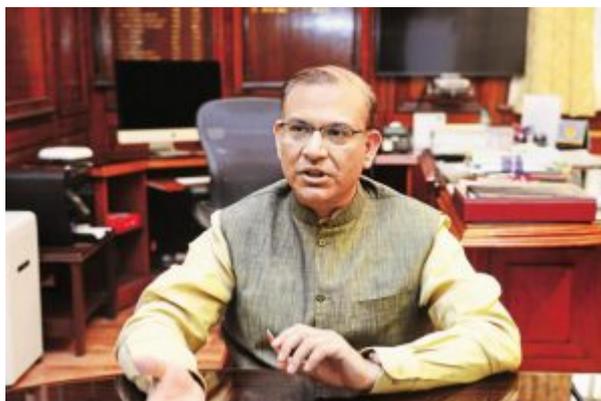
The present situation at a number of other airports in Jharkhand are:

Jamshedpur – awaiting the technical sanction by the Directorate General of Civil Aviation to start commercial services.

Dumka – To be developed to operate flights to Patna and Calcutta

Hazaribagh, Giridih, Dhanbad and Daltonganj – possibilities being explored

Parasnath – an helipad to be developed



Even as Jharkhand got a kick start of the UDAN scheme, neighbouring Bihar is still waiting for its UDAN to commence.

The Darbhanga airstrip project recently hit a roadblock. It did not get any bidder for re-carpeting of its 8,000 feet long runway.

As per AAI tweet on August 18, tenders for the construction of approach road, installation of PAPI and conveyor belts have been awarded. Construction work will be initiated to ensure smoother connectivity to and from the terminal building and dispersal area.

Consequently, AAI officials had to admit that operation of flights from Darbhanga, which was to commence from January 2019, will be delayed. Earlier in January 2018, SpiceJet was awarded permission to operate flights from Darbhanga to Delhi, Bengaluru and Mumbai.

How to integrate renewables with a high-rise building

One Regenerative Energy Concept.

Application Area : A High Rise Building

A builder mentions a number of features in his up-coming building project. The most important features which a modern day buyer will look for would be Technology related. These could be –

- Availability of Electric Power at Rs 3 a unit without any pollution (prevailing market tariff Rs 7 a unit)
- Availability of clean potable water
- Optional – Make the building fully or partly centrally

Air conditioned.

The builder then has enough ammo to lure the scrupulous buyer. Besides, it sets up an example for others.

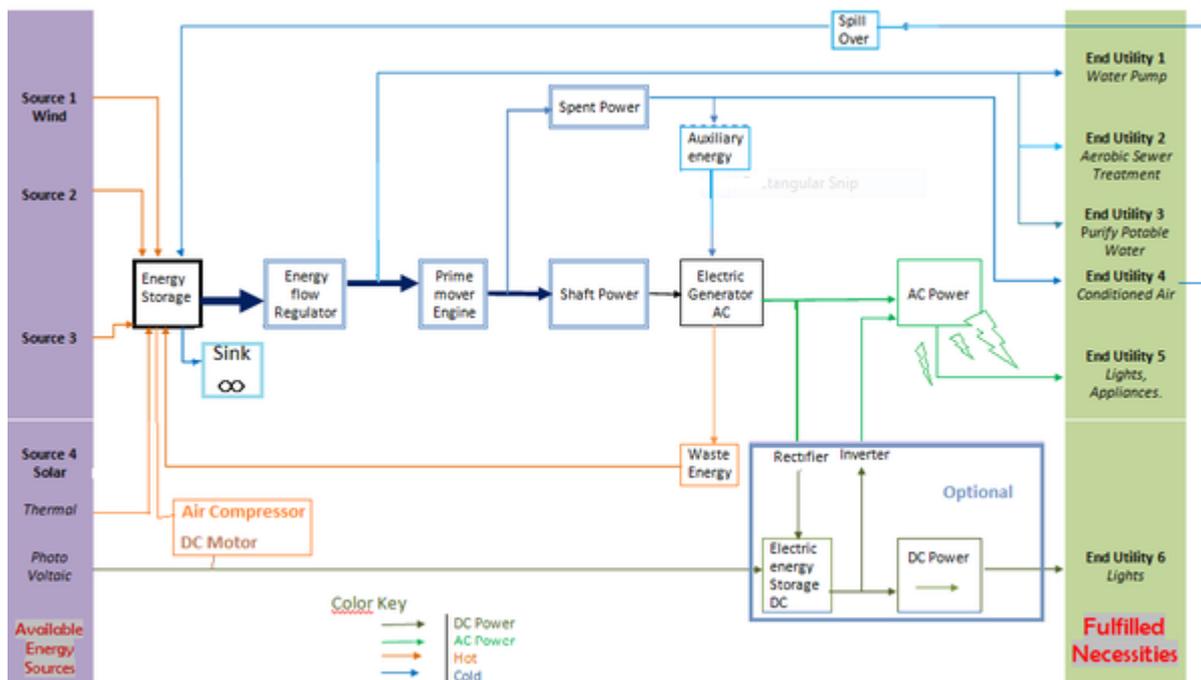
Achievable. Doable.

The only need is to tap the vast resources that Nature has provided.

The underlying principle is : "Optimum Utilisation and Regeneration".

The costs involved are only that during the fabrication and installation. This gets clubbed with the actual cost of the building, and enhances the asset value.

The operating costs are nearly NIL, as no fuel is needed. No consumables, and the equipment has very long life. Only maintenance and supervision will be needed.



Flow of Energy. It is just the interface between human need and what nature can provide. In this regenerative energy concept, the twin property of air is attempted to be used. These properties are pneumatic and the fact that air is consumable.

Air has power. That is, air is capable to do work. Because air is compressible.

Air itself is consumable. Air supports life.

Human need is centered around electric power. A compressed air engine driven alternator does it.

Humans need air for daily consumption; 'conditioned air' to be precise. That is zero pollutants, oxygen rich, and favorable temperature, humidity and flow.

All these necessities can be fulfilled by suitably tapping the energy sources available easily. These are solar (photo-voltaic and thermal), wind, hydel and geo thermal. The final output is an hybrid of all such available natural resources.

As per the Laws of thermodynamics, a heat engine works best when there is sufficient *difference* ($T_2 - T_1$) in the temperatures of the source and sink. Herein lies the significance of the "sink" shown here with infinite capacity. Attempt is being made to make full use of geothermal and solar thermal energies.

Energy from The Wind. The vertical axis wind turbine can run irrespective of the direction of the incoming wind. It is mounted on the top of the building to receive uninterrupted wind. The shaft axis stays vertical. Through a reduction gear mechanism, high torque can be obtained. This torque is used to run the compressor turbine. Speed although is slow, but the running can be continuous; at times very fast depending upon the prevailing weather – calm or stormy. The energy so obtained is collected and stored to be capitalised later, as and when needed.

Hydel Energy Capture. In any high rise building, water after consumption runs down the height of the building through carefully designed pipes. Overhead water tanks overflow. All such water is passed through a pelton type wheel which in turn runs the air compressor through a reduction gear. In this way, energy is stored in the form of compressed air. It comes from water running down the building. It is indeed a source of energy which, by nature, is largely intermittent throughout the day. Nonetheless, it is a power source which should be

tapped by all means. Why not? Further, one is bound to consider rain water harvesting. There is indeed a provision to collect rain water during the season at the top most level of the building. Collect and drain. While draining, let it pass through the pelton wheel and give up some of its potential energy. That stored energy can be regulated and utilised as and when required.

Electricity Generation. It is the traditional 3 ph brushless alternator the capacity being determined by the system requirement. The prime mover is an expansion air turbine, or a piston engine running on compressed air. The speed of it be fixed. Regulation of alternator output may not be needed. The cooling of the alternator is achieved through a tapping of cold air from the output of the expander turbine which is extremely cold. Keeping the alternator cool in this way contributes to its higher efficiency. Iron and copper losses are kept to a minimum. The outgoing hot air is again routed to any of the inlets of the air compressor.

Jet Airways Unable to Emerge Out of Crisis

The crisis-hit Jet Airways had earlier deferred announcement of June quarter results. Its shares crashed to a 3- year low and it came under the regulatory lens for a number of corporate governance lapses. The aviation regulator, DGCA, too has started safety audit of the airline. There also has been talks of a possible pay cut for the employees.

Also Read : Will Jet Airways emerge out of the woods?



Jet Airways continues to battle such big financial problems. In between such a crisis, the Jet Airways Staff and Officers' Association has sought a meeting with the CEO Vinay Dube to have a comprehensive understanding of

the factors. Dube had failed to meet earlier after assuring an appointment on August 10. It wants clarity from the management on the issues that have led to the current situation. The association has stated that its members have not been able to get their due from the management all these 25 years while the company has wasted huge amounts of money on expats' induction, unnecessary expenses, and inefficient operations.

The said employees' union of Jet Airways does not include pilots, engineers and cabin crews and claims to have around 10,000 members. It has complained that the management was wasting financial resources on "inefficient" operations and hiring of foreign pilots.

Jet Airways had to do the necessary regulatory filing. Its Board finally met on 28th August 2018 and announced the June quarter results. It tried to explore various cost-reduction ways with a viable turnaround plan.



The company reported that it has incurred a loss of Rs 1,323 crore and has negative net worth as of June 30. It had posted a profit of Rs 53.50 crore in the year ago period.

Total income of the company, however, rose to Rs 6,010 crore from Rs 5,648 crore in the year ago quarter.

The company, as is the norm, blamed macroeconomic factors for its poor performance. It mentioned the increase in brent fuel price along with a weak rupee causes the low fares unable to match the rise in ATF prices. It has undertaken various steps to improve operational efficiency. The company said it is continuing its thrust in relation to save costs, raise funds, optimize revenue management opportunities including monetisation of assets and increasing ancillary revenues. These moves are attempts to maintain a regular cash flow. Thus, Jet Airways hopes that its ability to repay the borrowings, and its overall performance will improve considerably with these initiatives.

Jet Airways' Board came up with a few firm decisions for its strategies to counter the present crisis. They are:

1. Comprehensive cost reduction programme
2. Induction of cost and fuel-efficient B737 MAX aircraft
3. Revenue enhancement programme
4. Product and service improvements
5. Leveraging the well-established 8.5m member JetPrivilege programme
6. Balance sheet restructuring
7. Fleet simplification

The two main proposals considered are – infusion of capital and the monetisation of the airline stake in its Loyalty programme.

As per Naresh Goyal, Chairman Jet Airways, this augurs very well for the financial situation and sustainability of the Company's sustainability in the long term.

What is the story behind a false Aug 25 notice stating that Air India would be shut down this year?

The said notification had further asked employees to search for other jobs, causing panic and confusion.

In a tweet message later Air India clarified the notification as fake. It called it a “false propaganda” hatched by “anti-nationals”.



“This is absolutely incorrect and false propaganda hatched with a malicious intent to create confusion and destabilise Air India just when our performance graph is rising,” the release read.

It added that such hoax messages should be ignored and strict legal action was being planned against perpetrators of such “anti-national” acts.

The truth of the matter is that Air India is currently crippled by various problems. The worst being its inability to pay its staff the salaries in addition to high interest burden, increase in competition, high airport user charges, adverse impact of exchange rate variation and liberalised bilaterals to foreign carriers leading to excess capacity in the market are among the major reasons for the losses.

Air india is immersed in a huge debt of more than Rs 48,000 crore. According to the Civil aviation minister Suresh Prabhu : “Air India is very clearly a legacy issue. Air India’s debt is unsustainable. Forget Air India, nobody can handle that debt. For any airline to service that debt is not possible.”

The government had even tried to sell 76 per cent stake in Air India in May 2018, but not a single buyer turned up. A revival strategy is now being planned as the government tries to make the airline “competitive” before making a fresh attempt for disinvestment.

Do the airlines in India resort to arbitrary fixing of air fares ?

Air fares in India are not consistently fixed as experienced by a large number of air travelers. For instance, consider an air fare of 1 adult, economy class between New Delhi and Patna :

Date of booking – 18th August

Air fares available as per date of travel –

19th August – Rs 7268

10th September – Rs 2525



13th October – Rs 3725

7th November – Rs 7007

As the travel date approaches, the fares increase further. It is a similar story on other sectors also.

It reveals that the airlines have no other choice but to charge as per the market demand. The airlines and the authorities could have introduced more number of flights when they see a surge in demand and they get sufficient time to schedule their plans.

Consumer rights activist Bejon K Misra has raised this issue of “arbitrary” fixing of fares by the airlines through a PIL seeking capping of air fares charged by airlines in the country. The PIL mentions that the authorities, including the civil aviation regulator, the Directorate General of Civil Aviation (DGCA), were acting as “silent spectators” to the “arbitrary” fixing of fares by the airlines

When summoned, one of the respondents, the DGCA, in its response submitted its reply through an affidavit in the Delhi high court as:

– that the airlines in the country are not charging fares that are unlawful, discriminatory or exorbitant,

- the ticket prices change according to market forces, and
- under the Aircraft Act it was not empowered to make “financial regulations” with regard to air fares.

and urged the court to dismiss the plea since the petitioner’s views regarding charging of exorbitant airfares by private airlines have not been substantiated as the prices charged by them do not exceed the fare buckets (levels) displayed on their websites.



The DGCA had to explain the computation of ‘dynamic’ fares. It said, “Fare increase with increase in demand for seats on any given flight and as a flight’s available seat inventory diminishes, lower bucket fares consequently may no longer be available. The airlines adopt a dynamic pricing mechanism in which prices are changed depending on the day of a week, time of day, numbers of days before the flight and other factors like number of seats and departure time. The prevailing airline practices by private and government owned airlines are same and in line with practices followed globally.”

The DGCA further said, “It is denied that air fares charged by the airlines are unlawful and discriminatory and that the respondents (DGCA and the Centre) have shirked their responsibility.”

The petitioner, Bejon K Misra, in his plea raised the importance of capping of air fares. He has said that capping of air fares or guidelines to regulate them are necessary to ensure “greater transparency and accountability” and “discourage profiteering and undue enrichment in the business of civil aviation”.

He referred to the incident of IndiGo airline cancelling a

large number of its flights due to which its passengers were left in the lurch and had to book tickets at the last minute on other airlines at “exorbitant prices”.

Misra has sought that airlines should not be allowed to charge more than a justified hike in the advance booking fare as airlines often charge more than 10 times the base rate when there is a shortage of seats.

A bench of Chief Justice Rajendra Menon and Justice V K Rao heard the case on 17th August and listed the matter for further hearing on October 9.