

# Ask The Expert: Why is Spicejet in a Hand-to-Mouth Situation?

India's budget carrier airline, SpiceJet, presently operates nearly 630 daily flights to various domestic and international destinations. It has an impressive fleet size of 118 aeroplanes, comprising 82 Boeing 737, 32 Bombardier Q-400s and four B737 freighters.

SpiceJet has recently signed a codeshare agreement with the Gulf carrier, Emirates. Code-sharing enables an airline to book its passengers on its ally carrier and present seamless travel to destinations where it does not operate.

**Also Read:** Jet Airways pilots look to join SpiceJet, IndiGo pilots see injustice

This is the first-ever codeshare agreement signed by SpiceJet. The codeshare will permit opening of new routes and destinations for the passengers of both the air carriers. An initial agreement between the two airlines was signed in April 2019. Thus, travellers from all over the world can book a single ticket with lucrative rates to any of Emirates' nine points across India and connect onwards to 172 domestic routes on which SpiceJet operates.



However, the overall financial health of SpiceJet does not present a rosy picture. The company is facing a liquidity

crunch. It has very low amounts of cash shown on its books. Media reports have said that the SpiceJet is bolstering its balance sheet with a fundraise through a qualified institutional placement (QIP), it is in talks with potential investors. SpiceJet has denied such reports. The so-called potential investors are missing too.

The fact of the matter is:

-As on 30 September, SpiceJet had cash and cash equivalents worth ₹93 crore.

-It had a net worth of about ₹850 crores (*negative*).

On the other hand, Spicejet's competitor, IndiGo run by InterGlobe Aviation Ltd had cash and cash equivalents worth about ₹18,736 crores and a net worth of about ₹6,200 crores. SpiceJet's free cash flow was ₹115 crore compared to IndiGo's ₹3,111 crores for the first half of FY20.

IndiGo is India's largest airline by market share. SpiceJet is India's second-largest airline by market share after IndiGo.

**Also Read:** SpiceJet considers taking over Jet Airways' aircraft, staff

In six months ending 30 September, SpiceJet lost ₹200 crores. It did not expect such a loss. It had assumed that the operating environment will not remain bad. When Jet Airways shut operations in April 2019, other airlines like Spicejet assumed that they will benefit greatly. However, that did not pan out as per their expectations, yields did not show any marked improvements. SpiceJet expanded rapidly in recent times, taking advantage of Jet's closure to take up over 30 of Jet's former 737 NG planes, flying more passengers and raising fares. SpiceJet has also received some of Jet's domestic and international airport slots.

In SpiceJet's case, the grounding of Boeing 737 MAX planes did hurt to some extent. SpiceJet seems to have placed very high hopes on the so-called virtues of the MAX, like 12-15% lower fuel consumption and 10% lower maintenance costs. It made the cardinal sin of assuming this as the key to profitability.

Most aviation analysts view this as an almost a hand-to-mouth situation for SpiceJet. Things may worsen further if Spicejet does not apply a course correction. A saving grace is a fact that the fuel prices haven't increased too much.

When a company is viewed as financially strong, it is in a better position to get better deals from suppliers, vendors and aircraft makers. Even for a fundraising exercise, the investors investigate its finances and then invest.



SpiceJet and other airlines like SpiceJet are not presently able to pass through such rough weather. They invariably have low cash on their books because they allow their businesses to heavily depend on variables beyond their legitimate control like fuel prices and competitive pressures. They are neither aware of the true value of their net worth nor they are able to make the optimum utilisation of their resources – which is quite strange. Most of the time, they find themselves very difficult to sustain.

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IndiGo has much higher cash holdings, it can sustain longer, it need not resort to lame excuses when things (fuel prices, currency fluctuation, or competition) become severe for the aviation sector. IndiGo's secret is open. Its business model is different from others. Apart from generating revenue from aircraft operations, it also has additional sources of revenue. Sale-purchase and leaseback of aircraft form a major source of revenue for IndiGo. A robust cash holding position

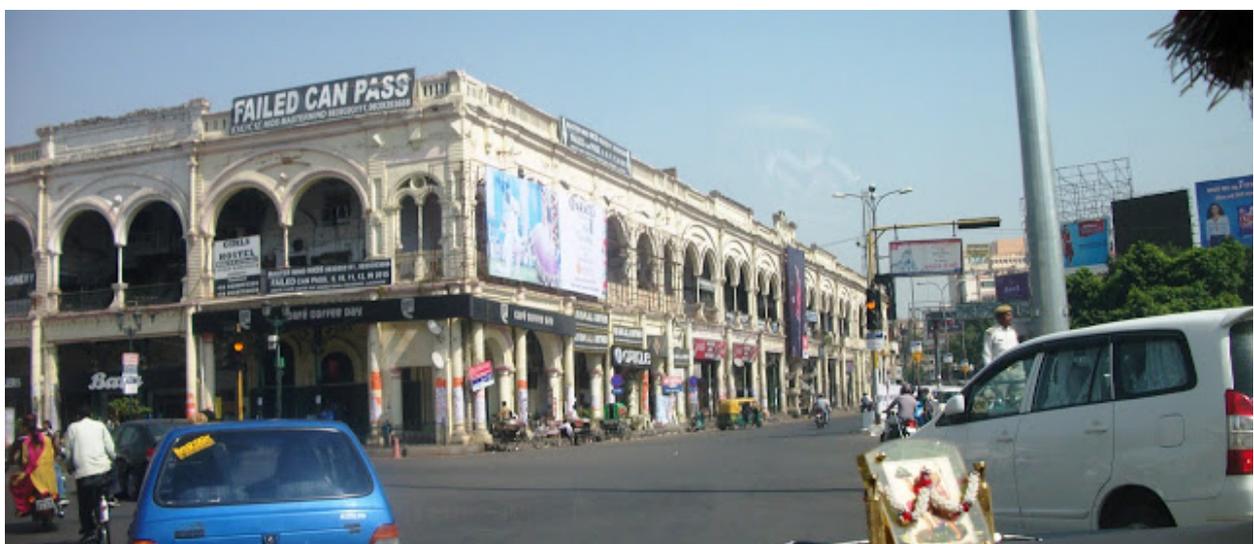
enabled IndiGo to order over 100 aeroplanes in 2006-07.

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# **Bihar Govt Didn't Open Counselling Centres for 0.5 Million who Applied for 166 Gr D Vacancies**

The various opposition parties, including Congress, have been targeting the BJP-JD(U)-led state government in Bihar when nearly 0.5 million applicants, which include graduates, post-graduates, B Tech, M Phil, MBA and MCA degree possessors, applied for 166 Gr D vacancies in the Bihar Vidhan Sabha where only a 10th pass qualification is needed. Around 1,500 to 1,600 candidates are appearing in the interview on a daily basis since September 2019 and the process shall continue till January 2020.

The controversy – people who are overqualified applying for Group-D posts in the state – get bigger. Such people are willing to serve as peons, gardeners, guards and cleaners in Bihar Vidhan Sabha.



## *'Failed can Pass' says a hoarding at Hazratganj in Lucknow*

The Bihar minister of rural development and parliamentary affairs, Shrawan Kumar of Janata Dal (United) dismissed it. He said, "What can a government do if people apply for jobs? People apply for jobs on their own accord. It's not like the government tells them to apply for a particular job. The only thing the government can do is to ensure the meritorious applicants are selected," Kumar told media persons.

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Kumar, however, recognised that development is a matter of serious concern. He swiftly blamed the "increasing competition" around the world for the same. "While it is worrisome, the entire world is going through a phase of tough competition," he said.

## **What to do when 0.5 million people have applied for 166 Gr D vacancies:**

The Bihar government did not show any pro-active intent to address the issue of unemployment. Its security department, namely, the police force is faced with severe manpower crunch. Bihar is among the most populous regions in the world, it requires enough number of police personnel to secure its various establishments, highways, and railways apart from VIP security. It is an irony that while the departments cry for more manpower, thousands of the state's citizens have to continuously search for jobs.

When it saw 0.5 million people have applied for 166 Gr D vacancies, the Bihar government did not open any counselling centre to speak to its citizens. Such an initiative would have required nearly 15 counsellors working in a 24-hr shift to counsel about 2000 people a day. The government could have empanelled such candidates and prepared a database for any future job consideration. Unfortunately, the government didn't make any use of this opportunity.



### *What should a government do*

Many candidates who applied for these posts have said that unemployment was the major reason for filing these applications. They feel that a higher education degree doesn't guarantee a basic salary of Rs 10,000 in the private sector. As such, the youth prefer government jobs over private jobs.

The government could have tried to see the reasons and solutions. By counselling the candidates and considering their strengths, weaknesses, aspirations and family backgrounds the government could have averted such a situation. It could have advised the candidates other means of livelihood.

Opposition leaders from the Rashtriya Janata Dal (RJD) and the Congress have blamed the BJP-JDU government for the current scenario of rising unemployment in the state.

They have said, "There is a job crisis and a state of unemployment in Bihar. Hence 0.5 million young men and women from neighbouring states have also applied for 166 Gr D vacancies. This includes people holding an MBA, BCA degrees and higher qualifications who are applying for Group D jobs.

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The situation is mainly due to the education policy the country has been following. In its New Education Policy, the government has clearly mentioned that until now the country was in a grip of a flawed education system. It has produced products which are mostly unemployable in the industry. The country has seen ages of indoctrination by the Indian middle-class fathers and mothers, who influence their kids that their

prosperity, self-merit, and marriage prospects are directly linked to the college they have attended and the job they do.

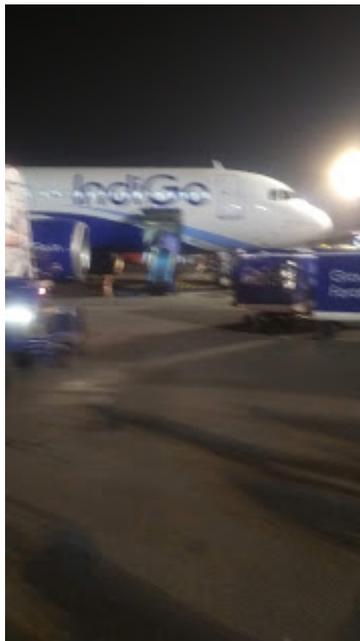
This situation shows that unemployment in the state is at an alarming level. Youths with higher qualifications are ready to work as peons. Nothing can be more unfortunate than this. People from other states like Madhya Pradesh and Jharkhand are also coming here for jobs, which means that even these states are reeling under unemployment.

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## **Ancillary Services Rescue Airlines**

Airlines in India are succeeding to some extent in milking a few millions of additional rupees from their customers for “extra” services that are now used to be included in their fare prices.

### **The Role of Ancillary Services**



Airlines all over the world are on their way to rake in nearly \$110 billion in revenue this year from the sale of so-called

“ancillary services”. These services have nothing to do with the operations of the aircraft: fuel consumption, maintenance, landing, parking or navigation charges. They are simply the extras best described as marketing gimmicks. These extras range from a choice of the seat to the volume of leg-space. Depending upon the way an airline fancies its marketing strategies, these may also include the ability to check one or more bags, chose an aisle seat, select seats together and/or in advance, to get reduced ticket change fees or additional frequent flier mileage points, or to get favoured check-in and security clearance procedures. Airlines clearly have today established the practice of charging more for such ancillaries.

**Also Read:** Silly Gimmicks Used by IndiGo for Marketing

The latest trend for the airlines has been:

to present a fully-stripped down, seat-only “Basic Economy” fares as well as various higher-priced “branded fares” that include various combinations of additional services.

But in the process, airlines have found in their customer feedback notes that they have disappointed more than half of their customers and left as many as 75% of them unhappy with their airline adventures. Such services historically were included in the price of the air-ticket. The airlines are yet to learn how to use customer data effectively to present fare options specifically tailored to the preferences of individual consumers. The skills required for revenue optimization (how a company dynamically adjusts the prices of its services to get, ideally, the highest revenue from a customer who is ready to pay for a service or product) have not yet been developed.

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More and more evidence is coming up which shows that a large

segment of travellers:

- leisure travellers,
- less frequent travellers,
- high mileage business travellers and/or
- very frequent fliers

are surely not very happy with the kind and constituents of various fare price options that the airlines offer. There is indeed a visible sense of hopelessness across the spectrum of airline patrons.



Despite that impediment, despite the still-not-well-defined way of unbundling and re-bundling service packages in their unpredictably priced fares, airlines' efforts at raising ancillary revenues are setting new records with every passing year.

Ancillary revenue now signifies 12.2% of global airline revenue. That's more than double considering the industry's forecasted 5% operating profit margin in 2019. In other words, ancillary revenues have impacted greatly on airlines'

profitability.

The global industry's \$109.5 billion in ancillary revenue now is more than half of the industry's total amount spent on fuel. In 2019, the fuel bill is expected to be around \$206 billion. This trend reveals that the rapidly evolving ancillary revenues have become a vital hedge against escalating fuel prices.

## **The Role of ATF Prices**

Airlines in India have long rued the high cost operating environment and high fuel prices. On November 20, 2019, the Parliament was informed through a written reply by the Civil Aviation Minister Hardeep Singh Puri in the Rajya Sabha that four domestic airlines including Jet Airways and JetLite, have shut their operations over the last three years for want of funds and unavailability of aircraft. The government has said that it is conscious of the financial difficulties being faced by the airlines and is responding to the industry situation.

The Minister listed out a slew of measures taken by the government to enable growth in the aviation sector. He said that the government was coordinating with all the stakeholders to resolve their issues.

As a result:

- the central excise duty on aviation turbine fuel (ATF) has been reduced,
- 100 per cent FDI has been allowed under the automatic route to ensure modernisation of airports and establish high standards,
- foreign airlines are allowed to invest up to 49 per cent in Indian carriers under the automatic routes and liberalisation of domestic code-share points in India within the framework of

the Air Service Agreement (ASA).

However, the Minister made it clear that the government has no role in raising funds for private airline companies as it is an internal matter of the airline and each airline has to prepare its business plan on the basis of its own market assessment and liabilities.

## **The Aviation Sector Elsewhere.**

In Thailand, Thai AirAsia, Thai Smile Airways, Thai Airways International, Nok Air, Bangkok Airways, Thai VietJet Air and Thai Lion Air have submitted a request to the government to cut the excise tax on jet fuel to avoid downsizing or shutting down operations. They said they have been badly affected by the weak economy, the local currency's strength, and intense competition. This has reduced tourist inflows.



The Excise Department has proposed the seven low-cost and full-service carriers to increase the frequency of flights to second-tier provinces to enhance tourism there in return for a reduction in the excise tax on jet fuel. The Excise Department

will cut the excise tax provided the airlines offer proposals that benefit the public, including more frequent flights to second-tier provinces.

"The government support is surely required if airlines are expected to take part in stimulating tourism in particular provinces," the airlines say. "Promoting travel in second-tier provinces is crucial for Thailand's tourism."

The United Arab Emirates's (UAE) is home to two of the biggest global airlines, Emirates and Etihad. The share of the aviation and tourism sector in UAE economy is set to double to \$128 billion; is likely to support 1.4 million jobs in the next 20 years, from 800,000 jobs now as per International Air Transport Association (IATA) observations.

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