

## Indian Aviation Sector: Overview, Challenges and Opportunities

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Aviation sector for a country is an important sector, which has a high impact on its GDP. Indian aviation sector can be regarded as an over-regulated and under-managed sector. Presently, India has the 9<sup>th</sup> largest aviation sector in the world. Over the last few years, it has been really challenging for the Indian Aviation sector, mainly due to high input costs, intense competition, negative policy, and environment for growth, to name a few. According to IATA (International Air Transport Association), India is the fastest growing aviation market despite all the impediments it has been facing. There is a huge potential for growth in the civil aviation sector largely due to growing middle class population, high disposable income, and rising aspiration to fly in the middle class segment.

Going back, in 1911, the first non-commercial flight commissioned from Allahabad to Nalini travelling a distance of 9.7 kilometres. Flight commencements have seen a rise thereafter exponentially in pan India. After the Independence in 1947, Indian aviation sector had been mainly dominated by State owned airlines, **Air India** being the prime name. But after the liberalization in early 1990's along with the open sky policy introduced by Government of India, it meant rapid transformation for the aviation sector in India. Further, fuelled by Deregulation, there were drastic reduction in fares, and a rise in competition/ private players in the aviation sector. Ministry of Civil Aviation of Government of India (**MoCA**) is

responsible for the formulation of policies and programmes for development and implementing schemes for orderly growth of Civil Aviation in India. Further, it is helped by **DGCA** (Directorate General of Civil Aviation), endeavouring to promote safe and efficient air transportation in India.

Going back to the history of Airlines in India, **Tata Airlines** was founded by **JRD Tata** in 1932 and was based in Mumbai. It was the first Indian commercial carrier to transport mail and passengers within India. JRD Tata himself was the pilot of the inaugural flight of Tata Airlines, which travelled from Karachi to Madras, carrying 155 passengers and 10 tonnes of mail. Incidentally, JRD Tata was issued the country's first commercial pilot licence. JRD Tata is thus considered as the Father of Indian Aviation. Tata Airlines became **Air India** in 1946. After independence, Government of India took 49% stake in the company, although JRD Tata remained Director of Air India till 1978. Then came **Indian Airlines**, India's first state owned domestic airline. It was setup under Ministry of Civil Aviation based in New Delhi. Later, Indian Airlines was merged with Air India for corporate purposes. In 1945, **Deccan Airways**, India's second domestic airline was founded, with 71% stake from Nizam of Hyderabad and 29% by Tata Sons.

Till early 1990s, Air India enjoyed monopoly. But after the liberalization in 1991, private players came to the forefront. Firstly, it was East West Airlines, which commenced operations in 1992. In 2003, common man's dream to fly came true in the form of **Air Deccan**, India's first Low Cost Carrier (LCC) founded by Cap. G R Gopinath. Air Deccan mainly

concentrated on connecting Tier 2 and Tier 3 Cities like Hubli, Mangalore and Dharmasala to name a few, which later on expanded to connect tier 1 cities also. **Kingfisher Airlines Limited**, which commenced operations from 2005, was also one of the forefront airlines, but due to lack of vision and quick expansion without adequate resources turned the airlines bankrupt.

The airlines business has 3 principal components- aircrafts, pilots, and technicians, further supported by hangar, maintenance facilities, and airport space. An Aircraft has value only when it flies; it is worthless on the ground. All Aircraft carriers have 3 major fixed costs- Fuel Costs, Aircraft Lease and labour costs. Fuel costs have direct influence on fares and operational efficiency. In today's competitive airline sector, most of the carriers opt for leasing of aircrafts, instead of buying them completely. There are 2 major aircraft manufacturers in the world. **Airbus** of France and **Boeing** of USA.

There are 3 business models for airlines, differentiated by its operational characteristics and service offered to passengers. "Charter" for chartered flights. "Low Cost Carrier (LCC)" and "Full Service Carrier (FSC)" for scheduled flights. Coming to Low Cost Carriers (LCC), it is a revival of the older culture of innovation and efficiency. It is a culture that does not allow on spending on unnecessary things. An LCC always innovates. LCC has more flying hours per aircraft per day and thus increases the operational efficiency per passenger. It is frugality, about doing away with the redundant. A Full Service Carrier (FSC) typically offers passengers inflight entertainment, beverages, meals,

blankets and covers covered all in ticket price.

Presently, there are 22 airlines operating in India- Indigo, Jet airways, Spice jet, Air India, Vistara, Air Asia, Air Pegasus to name a few. Out of these, Spice Jet, Indigo and Jet Airways are listed. More than 85 International Airlines operate in India, but only 5 Airlines of India carry passengers to 40 countries. India is one of the least penetrated markets in the world in this regard.

In India, as of December 2015, Indigo, an LCC has the highest market share of 36.4%, trailed by Jet Airways at 20.6%. Combined revenue generated by aviation sector was US\$ 11.1 B. Only Indigo, Jet Airways and Spice Jet could make it to profits and the rest suffered a combined loss of US\$ 1.27B. Of late, there have been new ventures in Indian Aviation sector, namely Air Asia India, Air Costa, Air Pegasus and Vistara. All of these performed below expectations (FY 2015), which remain challenged by Market Dynamics, Competitive pressures and strategic issues. Airlines also incur losses when there are flight delays, cancellations by customers regarding weather, operational issues, and technical issues. On Time Performance (OTP) is one measure through which an Airline's performance can be assessed. Higher the OTP, better the performance.

The rule of 5/20 is one the most debatable issue, regarding an Airline commencing International operations. The rule says, an airline must operate 5 years domestically and own/have on lease 20 aircrafts before it can plan an international route. New ventures have been lately opposing these rules, as they

want to explore the new possible ways of getting revenue.

Challenges faced by Airline sector today are many and they need to be addressed urgently. High operational costs, high cost of aviation turbine fuel, high service tax, shortage of maintenance facilities, high foreign exchange rate, congestion at airports, lack of qualified pilots and technical manpower, are just some of the issues faced by airlines in India. For travelling public, price of air tickets is of paramount importance. Even the frequent air travellers are looking for cheaper prices, thanks to wide availability of Internet and high computer literacy.

In some of the cases, Ministry of Civil Aviation (MoCA) can intervene and formulate policies which can benefit airlines by reducing operational costs. Modernising airports, increasing number of airports, modernising air navigation infrastructure (all of which are functions of Air Authority of India) possess major challenges for safe, efficient and orderly working of aviation sector. Initiatives that can be taken by Government to boost the health of Aviation sector include more focus on "Make in India", higher foreign direct investments (FDI), Visas on arrival, push to LCCs, modern airports, more regional connectivity.

The optimism lies in the CAGR reported, according to which Total Aircraft movement was up by 3.3% and passengers by 5.6% during FY12- FY15. In the coming year 2016 also, the growth rate is expected to increase. The threats have also not been far from the aviation sector. Global Economic slowdown, can hit the aviation sector very badly. Along with the rise in fuel prices, it can make air

tickets costlier, directly hitting the customer. With the wafer thin profit margins in aviation sector, operation of too many airlines can lead to bankruptcy of some airlines.

The opportunities are abundant in Aviation sector. Just the right thinking and strategies are required to ensure profitable operations. A well-developed Air Infrastructure is the need of the hour. Aviation is still a distant dream for poor and lower middle class people. So anyone can guess the true market potential for growth in the industry. I think it's necessary for stakeholders to engage and collaborate with policy makers (Government, MoCA, and DGCA) to implement tried and tested policies, backed by rational decisions that will shape the future of aviation industry.



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