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Uttara Stefanie Prakash,
Researcher.

OBJECTIVES OF THE STUDY

Prepare a report on the competition in the aviation sector in India with reference to:

I. India's Aviation sector
II. Operation strategies of budget/low-cost carriers

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Chapter I: INTRODUCTION

AVIATION

The art or science of flying an aircraft or the design, production, and maintenance of aircraft. Aviation, the development and operation of heavier-than-air aircraft. The term military aviation refers to the development and use of military aircraft, while the term civil aviation refers to all nonmilitary aviation, such as air transportation provided by airlines or the carrying of cargo by commercial aircraft.

It is a very well-known fact that aviation sector not only brings immense benefits to communities and economies around the globe, but also is a key catalyst of economic growth, social development and tourism. It facilitates connectivity and access to international markets. Air transport currently supports 56.6 million jobs and accounts for over US$ 2.2 trillion of the global gross domestic product (GDP). Air passenger traffic in India is increasing on a tremendous pace. The subcontinent's airport infrastructure is undergoing modernization with the induction of most advanced facilities. It includes setting up of new Greenfield airports and installation of security, surveillance and air traffic navigation systems. India is currently the 9th largest aviation market handling 121 million domestic and 41 million international passengers. Today, more than 85 international airlines operate to India and 5 Indian carriers connect over 40 countries

HISTORY OF AVIATION IN INDIA

The initial history of Indian aviation in India can be traced back to February 18, 1911, when the first functional Civil Aviation flight to Allahabad took off for Naini at around 10 km

J.R.D. Tata dispatched a postal package from Karachi to the Juhu airport on October 15, 1932. It is the country’s first official airmail service. His airline’s name was then changed to Air India. In addition, following the deadly disaster of Air India Flight 182, the Bureau of Civil Aviation Safety (BCAS) was established in 1987. Its first domestic air route was between Karachi and Delhi. It was opened by the Indian air services in collaboration with the UK based Imperial Airways.

Tata Sons Ltd. the first Indian airline, started a regular airmail service between Karachi and Madras three years later without any backing from the Indian government. During the period of independence, 9 air transport companies were carrying both air cargo and passengers in the Indian Territory. In 1948, the Indian Government and Air India set up a joint sector company, Air India International to further strengthen the Aviation Industry of India. As part of nationalization in 1953 of Indian Airlines (IA) brought the domestic civil aviation sector under the purview of Indian Government. Later till the mid 1990's government-owned airlines dominated Indian aviation industry.

By the year 2000 several private airlines have entered into the aviation business in succession and many more were about to enter into the arena. Indian aviation industry today is dominated by private airlines and low-cost carriers like Deccan Airlines. GoAir, and SpiceJet, etc. And Indian Airlines, the giant of Indian air travel industry, gradually lost its market share to these private airlines. According to the report of CAPA, these budget carriers are likely to double their market share by 2010 - one of the highest in the world.

CIVIL AVIATION POLICY

In the context of a multiplicity of airlines, airport operators (including private sector), and the possibility of oligopolistic practices, there is a need for an autonomous regulatory authority which could work as a watchdog, as well as a facilitator for the sector, prescribe and enforce minimum standards for all agencies, settle disputes with regard to abuse of monopoly and ensure level playing field for all agencies. The CAA (Civil Aviation Authority) was commissioned to maintain a competitive civil aviation environment which ensures safety and security in accordance with international standards, promotes efficient, cost-effective and orderly growth of air transport and contributes to social and economic development of the country.

OBJECTIVES OF CIVIL AVIATION MINISTRY:

- To ensure aviation safety, security

- Effective regulation of air transport in the country in the liberalized environment
- Safe, efficient, reliable and widespread quality air transport services are provided at reasonable prices
- Flexibility to adapt to changing needs and circumstances
- Encourage Private participation
- Encourage Trade, tourism and overall economic activity and growth
- Security of civil aviation operations is ensured through appropriate systems, policies, and practices

MARKET SIZE

India is expected to overtake China and the United States as the world's third-largest air passenger market in the next ten years, by 2030, according to the International Air Transport Association (IATA). Further, the rising demand in the sector has pushed the number of airplanes operating in the sector. The number of airplanes is expected to reach 1,100 planes by 2027. To cater to the rising air traffic, the Government of India has been working towards increasing the number of airports. As of 2022, India had 129 operational airports. India has envisaged increasing the number of operational airports to 190-200.

MAJOR AIRPOTS

1. Bengaluru
2. Chennai
3. Delhi
4. Hyderabad
5. Kolkata
6. Mumbai

INDUSTRY CONTACTS

1. Airport Authorities of India (AAI)
2. Directorate General of Civil Aviation (DGCA)

Chapter II: Public and Private sector

PUBLIC SECTOR PARTICIPATION

India is one of the fastest growing aviation markets in the world. Its domestic traffic makes up 69% of the total airline traffic in South Asia. India's airport capacity is expected to handle one billion by 2023. The Ministry of Civil Aviation is responsible for formulating national aviation policies and programmes.

The aviation sector came under severe financial stress during the Covid-19 pandemic. After air travel was suspended in March 2020, airline operators in India reported losses worth more than Rs 19,500 crore while airports reported losses worth more than Rs 5,120 crore. However, several airline companies were under financial stress before the pandemic affected passenger travel. For instance, in the past 15 years, seventeen airlines have exited the market. Out of those, two airlines, Air Odisha Aviation Pvt Ltd and Deccan Charters Pvt Ltd exited the market in 2020. Air India has been reporting consistent losses over the past four years. All other major private airlines in India such as Indigo and Spice Jet faced losses in 2018-19.

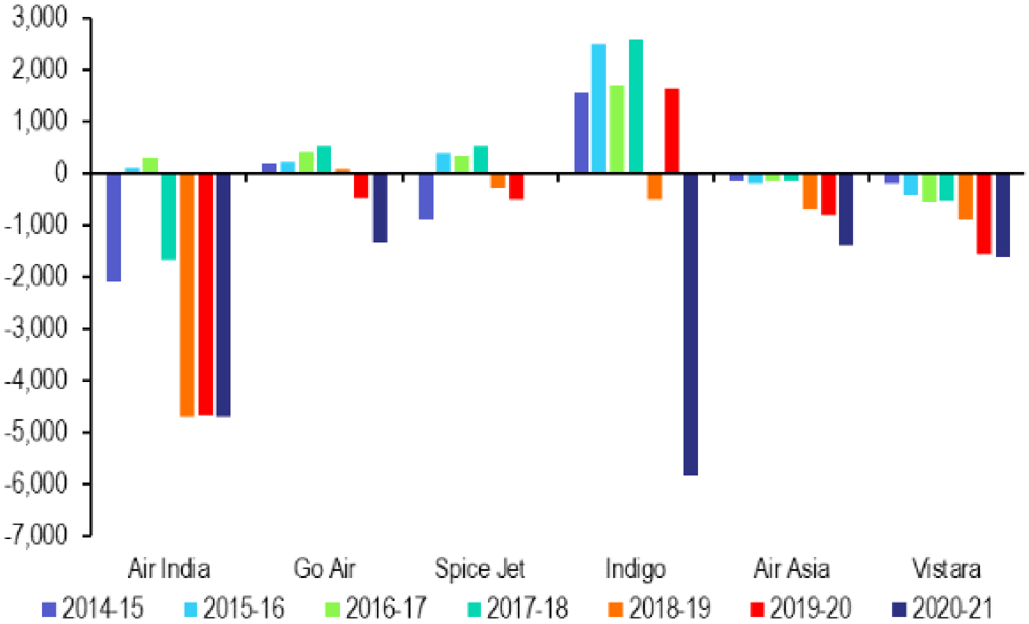

Fig 2.1 Operating profit/loss of major airlines in India (in Rs crore)

Sale of Air India

Air India Limited is a private entity and is under the ownership of Tata Group, and is headquartered at the Airlines house in New Delhi. It was previously under the ownership of Ministry of Civil Aviation, Government of India.

Air India has accounted for the biggest expenditure head of the Ministry of Civil Aviation since 2011-12. Between 2009-10 and 2020-21, the government spent Rs 1,22,542 crore on Air India through budgeted allocations. In October 2021, the sale of Air India to Talace Ltd., which is a subsidiary of Tata Sons Pvt Ltd, was approved. The bid for Air India was finalised at Rs 18,000 crore.

PRIVATISATION OF AIRPORTS

Airports Authority of India (AAI) is responsible for creating, upgrading, maintaining and managing civil aviation infrastructure in the country. As of June 23, 2020, it operates and manages 137 airports in the country. Domestic air traffic has more than doubled from around 61 million passengers in 2013-14 to around 137 million in 2019-20. International passenger traffic has grown from 47 million in 2013-14 to around 67 million in 2019-20. As a result, airports in India are witnessing rising levels of congestion. In response to this, the government has decided to privatise some airports to address the problem of congestion.

AAI has leased out eight of its airports through Public Private Partnership (PPP) for operation, management and development on long term lease basis. Six of these airports namely, Ahmedabad, Jaipur, Lucknow, Guwahati, Thiruvananthapuram, and Mangalore have been leased out to M/s Adani Enterprises Limited (AEL) for 50 years (under PPP). The ownership of these airports remains with AAI and the operations will be back with AAI after the concession period is over. The Standing Committee on Transport (2021) had noted that the government expects to have 24 PPP airports by 2024.

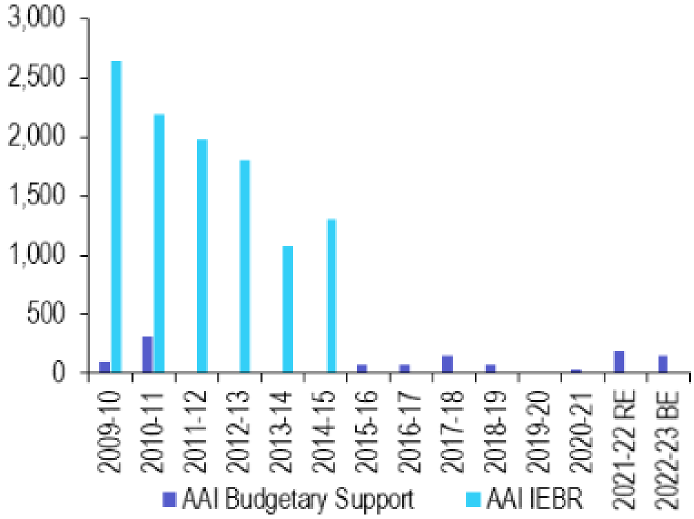

Fig 2.2 Allocation towards AAI (in Rs crores)

PRIVATE SECTOR PARTICIPATION

- Private sector participation is a major thrust area in the civil aviation sector for promoting investment, improving quality and efficiency and increasing competition.
- Competitive regulatory framework with minimal controls encourages entry and operation of private airlines/ airports.
- Encouragement of private sector investment in the construction, up gradation and operation of new and existing airports including cargo related infrastructure.

- o Rationalization of various charges and prices will be undertaken to render operation of smaller aircraft viable so as to encourage major investment in feeder and regional air services by the private sector.
- o Training Institutes for pilots, flight engineers, maintenance personnel, air-traffic controller, and security will be encouraged in private sector.
- o Private sector investment in non-aeronautical activities like shopping complex, golf course, Entertainment Park, aero-sports etc. near airports will be encouraged to increase revenue, improve viability of airports and to promote tourism.
- o Government will gradually reduce its equity in PSUs in the sector.
- o Government will encourage employee participation through issue of shares and ESOP (employee stock ownership plan).

PERFORMANCE OF INDIA IN THE AVIATION SECTOR

To improve the overall efficiency and effectiveness of the aviation sector and also to source extra funding, the Government of India has paved the way for private investors through a Public Private Partnership (PPP) model since the 1980s. This liberalization step in the Indian aviation market has minimized the institutional barriers which have hindered the freedom and flexibility of air transport operations among private investors. Now, competition within the aviation sector has become fiercer; the Airports Authority of India (AAI) and Public Private Partnership (PPP) in Indian airports are not only providing varied services, but also attracting consumers with new infrastructure and full modern facilities.

The airport sector is considered as one of the essential elements of the transport sector, as growth of the airport sector is crucial for the overall growth of the transport sector and the Indian economy. Modern and full-facility airports can help India to move forward as one of the most powerful economies of the world Airports and airlines have historically been considered as vital components of the national aviation system, and therefore both are regarded as public utilities. An earlier traditional airport management model was more prevalent but governments realized that it is an unsustainable model in the long run because of inefficiency and the burden of financing airports. Since the 1980s, airports have been privatized in an effort to become more efficient and to allow governments to use funding in other ways. Currently, the government regards airports as potential profit-making enterprises instead of just considering them as suppliers of infrastructure.

PUBLIC PRIVATE PARTNERSHIP IN INDIAN AIRPORTS

Since the revenue generated by AAI was found to be inadequate to satisfy spending requirements, public private partnership became essential to bridge the funding gap. Public Private Partnership (PPP) projects deliver an infrastructure service which is based on a long term contract between government or legal entity on one side and a private sector company on the other. It is particularly targeted towards financing, designing, implementing and operating infrastructure facilities and services in the State. The aim of PPPs is to achieve the objectives of both high growth and equity on a sustainable basis. Through PPPs, a large number of projects have been accelerated to meet the deficit in investments; thus, it is an essential tool. The critical link between infrastructure facilities and economic growth was realized from the First Five Year Plan onwards with outcomes given a high priority and more emphasis placed on the development of infrastructure. The Industrial Policy Resolution of 1956 reserved infrastructure solely for the public sector and as a result, the Government of India took on the responsibility for the development of infrastructure. If the overall infrastructure development is fully analysed, it can be seen that development was lacking till the beginning of the 1990s; the reason for this was the scarcity of resources. The liberalization of the economy introduced by the government in 1991 placed special emphasis on the development of infrastructure as there was recognition that if India was to emerge as a strong nation, then infrastructure standards should match international levels. Infrastructure covers investments in roads, highways, airports, ports and railways.

PERFORMANCE OF THE AVIATION SECTOR

The stock of airlines players including indigo Airlines and SpiceJet are up nearly 7% and 5% today (Mar 9, 2022). This is mainly on account of India's re-opening of international air travel. While it may appear positive, the airlines industry has a long way to go for recovery.

The Indian airlines industry had been walking on a tightrope. This is even before the outbreak of the virus mainly due to stiff competition and high operating costs. With the rapid spread of infections throughout the country between 2020 and 2021, the sector was crippled. Lockdown and movement restrictions were imposed for both domestic as well as international air travel. The sector was disappointed with this year's budget as well with no sops offered in terms of reduction of excise duty, or any other tax concessions.

But as the economy world over slowly re-opens, the Indian airline industry sees a few positives (since last year). These include low crude oil prices, re-opening of international and domestic travels, easing of travel-related documents for air-travel passengers, and potential gains for the operators since the grounding of Jet Airways.

Considering the global uncertainties on Covid, rise in inflation and crude oil prices and global tensions, whether the operators can spread their wings fully to take flight remains to be seen.

Air Traffic

With economies world over having started their air travels, there is a slow recovery in the Indian domestic and international air traffic. in January 2021, the domestic air traffic was at 77.34 lakh but in November 2021, it increased to 105.16 lakh as per the data available with DGCA (Directorate General of Civil Aviation). And there is potential for growth for airline carriers in the country, considering the low penetration in India While the positives appear to favour the airline industry, it gets complicated, and the grass is not so green on the other side.

High operating costs

Aircraft accounts for nearly 35% of the total expenses. For instance, for Indigo Airlines, for the quarter ended in December 2021, the fuel expenses accounted for 35% of its total expenses (the same account for 35% of revenue). For SpiceJet, it stood at 37% of total expenses (43% of total revenue) during the same period.

Fig 2.3 Fuel expenses of Indigo and SpiceJet

The fuel prices are volatile too, considering their relation to crude oil. While the Government subsidies the fuel prices, it is still high for the operators. Further, for the company to meet their operational expenses, the airline operators, most of the time, have to pass on any increase in fuel prices to the customers. This not only erodes the margin but reduces their demand. Ultimately, this impacts the earnings of investors as well.

Additional expenses also impact the operating margin and the profit of the company. These include depreciation and maintenance, aircraft handling charges, leases and rents, navigation fees, finance costs, and labour costs.

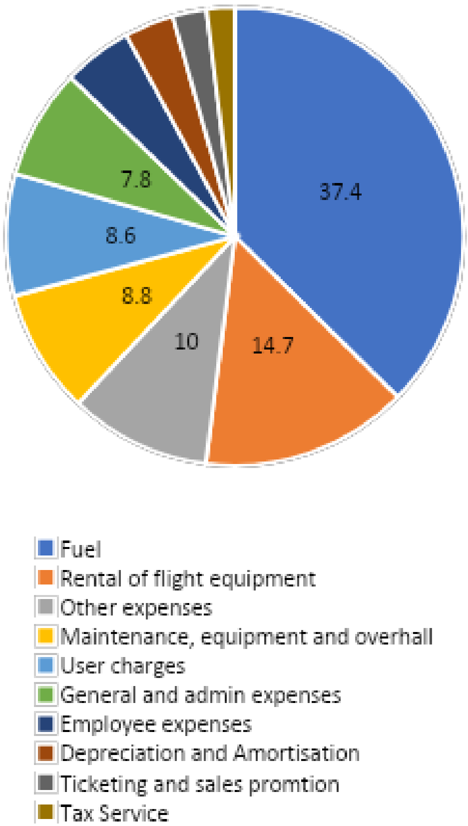

Fig 2.4 Cost Structure of aviation industry in India

Competitive Landscape

Despite high capital investments and infrastructure costs, airline space is highly competitive. There are nearly 15 airline operators in India, a combination of large and small regional players. These large players include SpiceJet, Air India, Indigo, and Go Air. And smaller ones include Vistara, Star Air, Air Deccan, and Air Heritage.

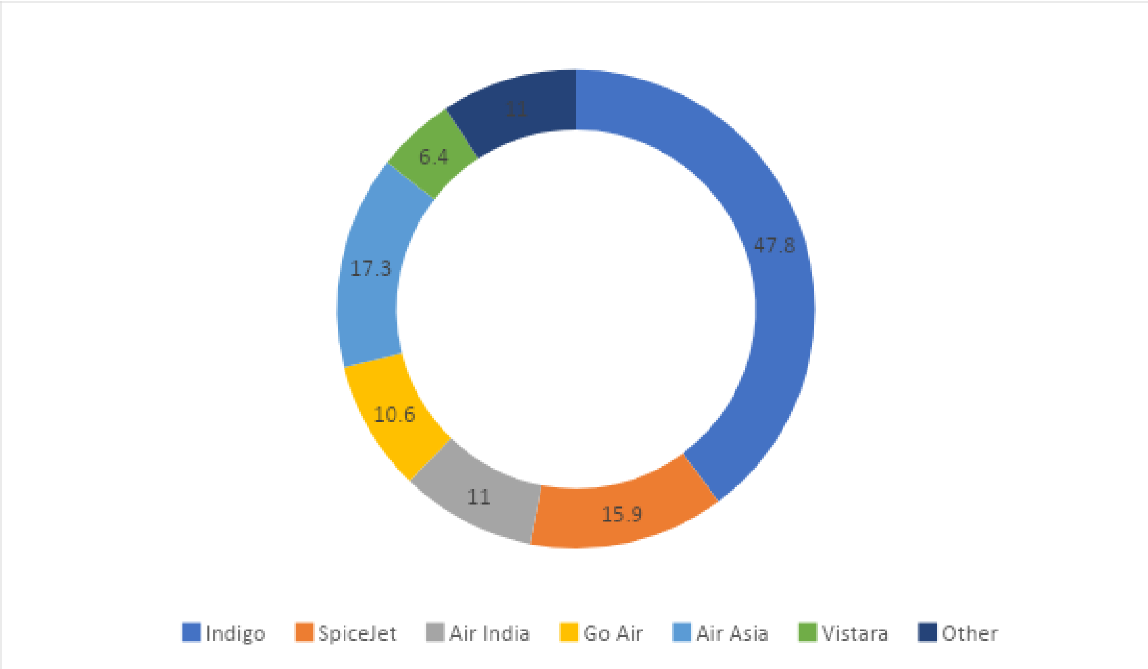

Fig 2.5 Market Share of major Indian Airlines

Most of them are low-cost carriers (LCCs) which put pressure on the price of flight tickets. Often those airlines with weak balance sheets may not be able to absorb the fuel price increase and thus pass the hike to its customers. This could have an adverse effect on the revenue of the company.

However, airlines have begun to unbundle their services. That is, operators now charge for services such as baggage, seat selection. While this could help reduce costs and aid revenue, these are not significant contributors.

Indian airlines also face competition from the Indian railways as well, particularly with the introduction of fast trains.

Elevated debt levels

The airline industry in India requires heavy investments and as such the debt levels of most airline players are high. This situation was exacerbated with the outbreak of the pandemic where the debt levels of all the players, big and small, shot up sharply. And their performances were in the red. For instance, in FY21 Indigo incurred Rs 5,830 crore of operating loss against an operating profit of Rs 1,626 crore in FY20. Its debt too expanded 27%. In FY20 its debt was at Rs 27,726 crore while it was Rs 35,153 crore in FY21. According to a few media reports, the Indian airline is expected to lose $4.1 billion in the year ending March 2022.

The net loss for India's domestic airline industry is expected to be in the rang Rs15,000 to Rs17,000 crore in FY23. Overall debt of the industry FY23 is around Rs11 lakh crore.
*FY refers to Recipient's Fiscal Year.

Chapter III: LCCs

WHAT IS WORKING FOR INDIA

While the skies are dominated by large airline players such as SpiceJet and Indigo, small regional airlines are making headway in the market too. These include the upcoming airlines Akasa and Go Air.

Though the airline industry is facing a turbulent period, it could be temporary. Airlines play a crucial role in integrating the world economies and connecting people. Many experts expect consolidation in the industry before stability. This is particularly after Tata's takeover of Air India. If Tata decides to integrate its airline operations, it could be the largest airline in the country.

While competition, pricing pressure and weak demand is weighing on all the players, there are a few positives that work for the industry. Many veteran investors want to invest in this industry because of its importance in the economy and its potential to grow in the country.

- The low-cost model works well for domestic travel, and it can be expanded to international travel routes as well.

- Similarly, with no Jet Airways take-off in sight, it could help in market share gains for the existing airline operators including SpiceJet and Indigo.

- According to various reports, the aviation penetration in India is among the lowest in the world. For instance, the total fleet size in India is 716 as of December 2020, while the fleet size of American Airlines alone is 994, United Airlines is 950, and in the fleet size of Chinese Airlines: China Southern Airlines is 636, Air China is 448 and China Eastern Airlines is 574. This gives the airline operators the space to expand their business.

LCCs

A low-cost carrier or low-cost airline is an airline that is operated with an especially high emphasis on minimizing operating costs and without some of the traditional services and amenities provided in the fare, resulting in lower fares and fewer comforts.

Examples of LCCs in India are Akasa, Air India Express, Indigo; Abroad: European - Ryanair, Hungary – Wizz Air.

Low cost carriers (or LCCs) emphasize cost reduction and control to compete with legacy carriers. They offer competitive pricing to customers. The common cost-cutting strategies adopted by these carriers can be broadly classified into the following categories:

Strategies Budget Airlines Use

CATEGORY	**STRATEGY**
On-board operation	Optimum use of seating space (often maximum allowed). Minimal crew. Limited cabin service. In plane advertising and merchandise (duty free, phone cards, etc.)
Aircraft operations	Few (often one) types of aircraft used to minimize maintenance costs. Stair boarding instead of sky bridges. Usage of both front and back doors for faster boarding. Maximum usage of runway length Fast turnaround to maximize aircraft use.
Fleet	LCCs own relatively newer aircraft of a single type. With aircraft from a single brand or manufacturer LCCs are able to reduce training and maintenance costs. The cost savings is enhanced by the use of younger fleets which are more fuel efficient.

Simple product idea	Low-cost airlines cut out the segregation of passengers and use very narrow seating, which creates more capacity. They do this with large planes so every flight has plenty of seats. Usually, the passengers pay for the seat, and anything else is extra. Ryanair has even started charging customers to use the toilets on short flights. These companies target leisure customers, not business passengers. Flights are sold on a first come, first serve basis and therefore the cost of each flight rises depending on the demand for seats. The routes are never too long, which takes away the need to stop and refuel at other airports while increasing the frequency of the flights.
Booking	Online booking to minimize transaction costs. No travel agent commissions. Luggage fees. Offer of ancillary services (hotels, car rentals, travel insurance)
In-flight services	LCCs don't offer all services provided by a legacy carriers like free meals and drinks. However, some of these services are available at an extra price. They have high density seating arrangements with fewer galleries and toilets because they cater to shorter distance routes. Also, they don't provide seat reservations.
Network	By using the point-to-point model, LCCs stay away from busy and expensive hubs that legacy carrier's use. LCCs manage to operate from smaller airports through which ground times and delays are reduced. Smaller airports are usually less congested and enable a higher number of trips and aircraft utilization which leads to cost reduction. Point-to-point services. Destinations commonly of less than two hours apart. Usage of secondary airports (lower usage rates).

ADVANTAGES AND DISADVANTAGES

Low-cost airlines are airline companies that offer cheap tickets, at least in comparison with traditional airline companies. They work according to the ‘no frills’ concept and are therefore also called price fighters or budget airlines. This means that overhead costs are kept as low as possible, and extra services such as meals and entertainment are not included in the price. Hand baggage is allowed but must meet specific requirements (dimensions and or weight), for hold baggage you always have to pay extra. Unlike traditional airlines, low-cost airlines tend to fly to small airports, due to the lower airport and handling costs that apply to these airports.

ADVANTAGES	DISADVANTAGES
Cheaper Low-cost airlines are, as the name suggests, cheaper than traditional airline companies.	Service The service offered by low-cost airlines is less than you will get from a traditional airline. You do not have to count on a meal or drink, and the chairs and legroom are minimal. This does not mean that the service is terrible, but less luxury would be a better description. Low-cost airlines do offer products and services, but always for a fee.
Cheap parking Low-cost airlines usually fly to smaller airports. This means that parking is going to be significantly cheaper, as the larger airports will charge you more for a parking space.	Distance airport-city Low-cost airlines often use small airports that are located far outside the city. This is cheaper for them, but less practical for travelers because it takes longer to arrive in the city. Before you book an airline ticket, it is wise to check exactly where you are flying.
Sightseeing If the smaller airport isn’t near your destination, you will probably have to rent a car or at least arrange some form of transportation. This involves extra costs, but you don’t have to see this as wasted money.	Extra costs Low-cost airlines regularly offer tickets at floor prices. Unfortunately, these are not always the prices that you have to pay. Extra costs for taxes, surcharges, payment method and more can increase the price considerably. The increased price also

This way you will see some of the sights at an early stage.	applies to traditional airlines, but to a lesser extent.

CONCLUSION

Indian Aviation, flying high

A rising proportion of middle-income households, healthy competition amongst Low-Cost Carriers, infrastructure build up at leading airports and supportive policy framework has given a positive push to the aviation sector. In 2010, 79 million people travelled to/from/or within India. By 2017 that doubled to 158 million, and this number is expected to reach 520 million by 2037.

The nation's airplane fleet is projected to quadruple in size to approximately 2500 airplanes by 2038. Currently, the country has 130 operational airports including 29 international, 91 domestic, and 10 custom airports. To augment the airport infrastructure the government aims to develop 100 airports by 2024 (under the UDAN Scheme) and expects to invest $1.83 billion in the development of airport infrastructure by 2026.

The civil aviation industry in India has emerged as one of the fastest growing industries in the country during the last three years and can be broadly classified into scheduled air transport service which includes domestic and international airlines, non-scheduled air transport service which consists of charter operators and air taxi operators, air cargo service, which includes air transportation of cargo and mail. Domestic traffic contributes around 69% of the total airline traffic in South Asia and India's airport capacity is expected to handle 1 billion trips annually by 2023.

The Indian aviation industry has recovered fully from the covid-19 pandemic shock as indicated by the air traffic movement which stood at 613,566 in the first quarter of FY 2022-23 compared to 300,405 in the same period last year, an increase of 104.24%. India is currently the 7th largest civil aviation market in the world and is expected to become the third-largest civil aviation market within the next 10 years. Indigo is the largest airline company in India with the highest market share. India has become the third largest domestic aviation market in the world and is expected to overtake UK to become the third largest air passenger* market by 2024.

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