CHAPTER 2: CIVIL AVIATION IN INDIA

2.1 Historical Background
   2.1.1 Phase I (Pre Nationalisation)
   2.1.2 Phase II (Nationalisation of Civil Aviation)
   2.1.3 Phase III (Liberalisation of Civil Aviation)

2.2 Air Transport Service
   2.2.1 Institutional Framework
   2.2.2 Full Service Carriers
   2.2.3 Low Cost Carriers

2.3 Growth of Civil Aviation Industry in India

2.4 Quality of Customer Service in Airlines of India

2.5 Challenges

2.6 Opportunities

2.7 Future Prospects

2.8 Chapter Summary
Chapter Overview

This chapter presents the current status of civil aviation industry in India. It also discusses various challenges and opportunities emerging due to economic liberalization in the country. Section 1 gives the historical background of civil aviation in India. Section 2 presents the institutional framework, its players and types of air services. Growth of civil aviation industry in India has been discussed in Section 3. Quality of customer service in airlines of India is discussed in Section 4. Section 5 highlights some of the important challenges posed by the liberalized economy. Section 6 focuses on the opportunities that can be exploited by the domestic civil aviation carriers. Finally, section 7 draws main conclusions and presents future prospects.

2.1 Historical Background

This section delves into the past of the air sector in India and discusses its evolution. It studies India’s experience, and how entrepreneurship, regulation and economic thought have played a role in its development.

2.1.1 Phase I (Pre Nationalisation)

Backed by individual initiative, aviation had an impressive beginning in India in the first few decades of the last century (Bhandari, 2002). In 1910, the government passed the Indian Airships Act (later amended to Aircraft Act) following private attempts at air travel for personal interest and sport. The Indian Air Board, an advisory set up of senior officials of Government of India was formed in 1918 to advise on ways of assisting and encouraging civil aviation. In 1926, the board submitted memorandum titled “The Past History and Future Development of Civil Aviation in India” (Sen, 1998). The recommendations of the memorandum led to the formation of a separate Department of Civil Aviation and Lt Col Shelmerdine was appointed first Director General of Civil Aviation in 1927.
The 1930s saw an increase in number of aircraft, routes, frequencies of air transport in India. In October 1932, TATA Airlines started operations of its Karachi - Ahmedabad - Bombay - Bellary - Madras service. In Dec, 1933, this was followed by Indian National Airways, a Delhi based company, which operated mail and freight service between Calcutta - Rangoon - Dacca. ‘Air Services of India’ started passenger services between Bombay - Kathiawar - Kolhapur in 1937. The operations were not profitable and the services were discontinued in two years. By 1939 all parts of the country were connected by regular air services. In July 1946, Tata Airlines was renamed as Air India and converted to a public company. In early 1948, a joint sector company, Air India International Limited, was established by the Government of India and Air India to operate on international routes.

The Second World War led to an unparalleled boost to civil aviation. Established air carriers increased the number and size of aircraft they were flying. Many new airlines also entered the industry. This led to a high degree of competition between the airlines and prices crashed reducing the profitability of airlines. However, it continued to be a highly dynamic industry. While the route mileage, miles flown and traffic carried had shown a phenomenal growth, the industry as a whole was operating at a heavy loss. The soaring prices of aviation fuel, mounting salary bills and disproportionately large fleets took a heavy toll of the then airlines.

The government in February 1950 appointed an Air Traffic Enquiry Committee to look into the problems faced by the airlines. The Committee recommended that some of the airlines should be merged. The Government set legislation to nationalize the air transport industry. The Air Corporation Act received Presidential assent on May 28, 1953 and accordingly, two autonomous corporations - Indian Airlines Corporation and Air India International Corporation (the word ‘International’ was dropped in 1962) - were created on August 1, 1953.

2.1.2 Phase II (Nationalisation of Civil Aviation)

After nationalisation of the industry in 1953, Indian Airlines Corporation took over the domestic operations, while Air India International Corporation started operations in international sectors except for some routes to the neighbouring countries which were given to Indian Airlines.
The eight former independent companies became ‘Lines’ of Indian Airlines Corporation (IAC): Air India, Air Services of India, Airways (India), Bharat Airways, Deccan Airways, Himalayan Aviation, Indian National Airways and Kalinga Airlines. This gave rise to the problem of integration and rationalisation. Indian Airlines Corporation inherited a fleet of 99 aircraft including 74 Douglas DC-3 Dakotas, 12 Vickers Vikings, 3 Douglas DC-4s and various smaller types from the eight airlines that made it up. Vickers Viscounts (Ten Nos) were introduced in 1957 with Fokker F27 Friendships (Ten Nos) being delivered from 1961. The 1960s also saw fourteen HS 748s (Avros), manufactured in India by Hindustan Aeronautics Limited, join the fleet. The jet age began for IAC with the introduction of the three pure-jet Sud Aviation Caravelle airliner in 1964, followed by seven Boeing 737-200s in the early 1970s. In the 22 years since the Corporation was formed, technological development and the growing traffic on the trunk routes have seen the Dakota and the Viking give way to the Viscount, the Viscount to the Caravelle and the gradual supersession of the Caravelle by the Boeing 737-200. Each successive aircraft type has been larger, faster and more economical to operate than the one it replaced (IAC Annual Report 1974-75). April 1976 saw the first three Airbus A300 wide-body jets being introduced. By 1990, Airbus A320s the first fly-by-wire plane was introduced in IAC fleet.

In 1954, Air India International took delivery of its first L-1049 Super Constellations and inaugurated services to Singapore, Bangkok, Hong Kong and Tokyo. It entered the jet age in 1960 when its first Boeing 707, named Nandadevi and registered VT-DJJ, was delivered. Jet services to New York via London were inaugurated that same year in May 1960. On 8 June 1962 the airline's name was officially truncated to Air India. On 11 June 1962 Air India became the world's first all-jet airline. In 1970, Air India moved its offices to downtown Bombay. The next year, the airline took delivery of its first Boeing 747 named Emperor Ashoka and registered VT-EBD. This coincided with the introduction of the 'Palace In The Sky' livery and branding. A distinctive feature of this livery is the paintwork around each aircraft window, in the cusped arch style of windows in Indian palaces. In 1986 Air India took delivery of the Airbus A310. The airline is the largest operator of this type in passenger service. In 1988, Air India also took delivery of two Boeing 747-300s in mixed passenger-cargo configuration. In 1993, Air India took delivery of the
flagship of its fleet when the first Boeing 747-400 named Konark and registered VT-ESM made history by operating the first non-stop flight between New York and Delhi.

Vayudoot started operating as a feederline in January 1981 as a subsidiary of Air India and Indian Airlines. This airline was originally conceived to serve the north-east region of India where the surface transport facilities were inadequate and surface routes were circuituous. Subsequently, the services of Vayudoot had been extended to other regions also, charting 100 stations in the country. This had adversely affected its financial performance. After a review, the number of stations on the operational network was brought down to 48 on 31st March 1991. Its operations were restricted to North-Eastern region and other inaccessible areas. Vayudoot had a fleet of eight Dornier aircraft, eight Avro and one Fokker aircraft. Vayudoot's financial performance was not satisfactory which finally led to its dissolution and merger of its assets into Indian Airlines.

2.1.3 Phase III (Liberalisation of Civil Aviation)

The third phase of Indian aviation began in the year 1986 with granting of permission to private sector players to operate as air taxi operators. The private players allowed to operate as air taxi operators included Air Sahara, Jet Airways, Damania Airways, East West Airlines, Modiluft and NEPC Airways. In 1994, government of India repealed the Air Corporation Act thereby granting scheduled carrier status to six private air taxi operators. However, not many operators were able to continue their business and by 1997 only two private operators - Jet Airways and Air Sahara - continued to operate. Six private airlines - East-West, Modi-Luft, NEPC, Damania, Gujarat Airways and Span Air - were closed and according to an estimate, the capital losses involved in these closures were to the tune of Rs 10 billion (Shah, 2007).

The duopoly of Jet Airways and Air Sahara as private carrier was challenged in 2003 by Deccan whose operations in scheduled services began in August. Deccan gave India its first Low Cost Carrier (LCC) or no frills Airline. This marked as a turning point in the history of Indian aviation sector as it marked a shift from the regular economy fares & business fares to the era of check fares such as web fares,
APEX fares, internet auctions, special discounts, corporate plans, last day fares, promotional fares. This has led to tremendous growth in air traffic (Seshadri & Henry, 2005). Spurred by the initial success of LCC Model, other airlines entered the sector and opted for No-Frill Model. Since then 5 other airlines namely Spice jet, Kingfisher, Indigo, Paramount, Go Air have begun operations in India. Licenses have been issued to new carriers such as Star Airlines; Skylark; Magic Air; Air One and many more in the pipeline.

Yet another milestone in the history of the Indian Aviation sector came in the year 2007 which is the year of mergers in the Indian Skies. The year has witnessed a series of merger and acquisition of airlines namely: Indian-Air India; the Jet-Sahara Deal; the Kingfisher-Deccan Deal (Bansal, Khan & Dutt, 2008a). These players post consolidations have claim over 80% of the market share. Pandey (2007) feels that consolidation in the Indian airline industry may lead to a monopolistic scenario. A policy adjustment is required to ensure that aviation market remains competitive.

2.2 Air Transport Service

India has an eminent position in the civil aviation sector with a large fleet of aircrafts. In all, 14 airlines are operating scheduled air services to and through India and 76 non-scheduled operators are flying over Indian territory. There are over 450 airports and 806 registered aircrafts in the country. There are also 76 non-scheduled air transport operators (DGCA, 2008). Air transport has a significant role to play in a vast country like India with major industrial and commercial centres located far apart (Puri, 2003). The civil aviation sector has significantly changed during this period making earlier projections totally obsolete for the current economic scenario.

2.2.1 Institutional Framework

The domestic civil aviation activities in India can be broadly classified into three categories - regulatory-cum-developmental, infrastructural and air transport services (Planning Commission, 2001). Exhibit 2.1 presents the institutional framework of Indian aviation industry.
The Ministry of Civil Aviation (MoCA) and its bodies, namely, Directorate General of Civil Aviation (DGCA) and Bureau of Civil Aviation Security (BCAS) look after regulatory and developmental aspect of civil aviation in India. MoCA is the nodal agency responsible for formulation of national policies, schemes and programmes for development and regulation of civil aviation sector. It’s mission is 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 (MoCA, 2000). It’s function extends to overseeing airport facilities, air traffic services and carriage of both passengers / goods by air.

Government has laid down Route Dispersal Guidelines (RDG) in 1994 with a view to achieve better regulation of air transport services taking into account the need for air transport services of different regions of the country (Planning Commission, 2006a). According to the RDG, all scheduled operators are required to deploy in the North Eastern region, Jammu & Kashmir, Andaman & Nicobar Islands and Lakshadweep (Category-II routes) at least 10% of their deployed capacity on trunk
routes (Category-I routes). Further, at least 10% of the capacity thus required to be deployed on Category-II routes, is required to be deployed for connectivity exclusively within these regions. 50% of the capacity deployed on Category-I routes is to be deployed on routes other than Category-I and Category-II routes i.e. Category-III routes. All airlines are free to operate anywhere in the country subject to compliance with the RDG. In view of the vital changes that have taken place in civil aviation sector since the policy was laid down, it is desirable to review the RDG to bring them in line with these developments (Planning Commission, 2006b).

The Airports Authority of India (AAI) was formed on 1st April 1995 by merging the International Airports Authority of India and the National Airports Authority with a view to accelerate the integrated development, expansion and modernization of the operational, terminal and cargo facilities at the airports in the country conforming to international standards. AAI manages 126 airports, which include 11 international airports, 89 domestic airports and 26 civil enclaves at defence airfields. It provides air navigation services covering more than 2.8 million square nautical miles of airspace. AAI, during Apr 2007- Mar 2008 handled about 1.31 million aircraft movements (1.06 million domestic and 0.25 million international); 116.87 million passengers (87.06 million domestic and 29.81 million international) and 1.71 million tonnes of cargo (0.57 million domestic and 1.15 million international) (Airport Authority of India 2008).

The Air Transport Companies are both in the public sector and in the private sector. In the public sector, Indian Airlines and Alliance Air provide passenger transport and cargo handling services in the country. In the private sector, there are eight scheduled airlines (passenger), namely, Jet Airways, Air Sahara (now JetLite), Deccan Aviation, Spice Jet, Go Airways, Kingfisher Airlines, Paramount Airways and Indigo operating on the domestic sector providing passengers with a wide choice. In addition to the above mentioned scheduled airlines, there are at present 46 companies holding non-scheduled air transport operators permit. Indian Airlines has also been operating to the neighbouring countries in South East Asia and the Middle East. The private scheduled airlines Jet Airways and Air Sahara have been operating on international sectors to Colombo, Kathmandu, Singapore and UK.

Presently, Indian Airlines, Jet Airways and Kingfisher are the Full Service Carriers (FSC), whereas JetLite (erstwhile Air Sahara), Deccan, Spicejet, Paramount, IndiGo
and Go Air fall in the category of Low Cost Carriers (LCC). Table 2.1 gives the profile of domestic airlines operating in India.

### 2.2.2 Full Service Carriers

**National Aviation Company of India Limited (NACIL)** is a 100 percent government owned company, incorporated in March, 2007 and started its operations in August, 2007 following the merger of Air India Limited and Indian Airlines Limited. It operates under the brand name “Air India” and its logo remains the Maharaja. The company has employee strength of about 33,000, turnover of more than Rs 150 billion and operates 140 aircraft, making it one of the largest airlines operating in Asia. The company is in the process of major expansion and adding 111 state-of-the-art aircraft to its fleet. Air India covers more than 100 domestic and international destinations.

**Air India (Domestic) (erstwhile Indian Airlines together with its fully owned subsidiary Alliance Air)** has a fleet of 96 aircraft (3 wide bodied airbus A300s, 48 fly-by-wire airbus A320s, 12 Airbus A319s, 2 Airbus A330, 9 Airbus A321, 11 Boeing 737s, 2 Dornier Do-228 aircraft 7 ATR-42 and 2 CRJ 700. It has already placed order for 43 new aircraft (i.e. 19 A319s, 4 A320s & 21 A321s) and aircrafts are being delivered on regular basis. The Airlines' network spans from Kuwait in the west to Singapore in the East and covers 79 destinations - 61 within India and 18 abroad. Indian Airlines flight operations centre around its four main hubs the main metro cities of Delhi, Mumbai, Calcutta and Chennai. Together with its subsidiary Alliance Air India (Domestic) carried a total of over 8.1 million passengers in 2007.

**Jet Airways**, which commenced operations on May 5, 1993, has established its position as a market leader within a short span of 14 years. Jet Airways currently operates a fleet of 87 aircraft, which includes 10 Boeing 777-300 ER aircraft, 11 Airbus A330 aircraft, 55 classic and next generation Boeing 737-400/700/800/900 aircraft and 11 modern ATR 72 turboprop aircraft. With an average fleet age of 4.3 years, the airline has one of the youngest aircraft fleets in the world. Jet Airways
<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>FSC - PUBLIC</th>
<th>FSC - PRIVATE</th>
<th>LOW COST CARRIER</th>
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<tr>
<td>Airline Name</td>
<td>Air India (Domestic)</td>
<td>Jet</td>
<td>Kingfisher (Air Sahara)</td>
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<td>Airline Logo</td>
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<td>Jet</td>
<td>Kingfisher (Air Sahara)</td>
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<td>Technology Partner</td>
<td>In-house</td>
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<td>Current Fleet (Classic/Small)</td>
<td>38 / 11</td>
<td>25 / 18</td>
<td>17 / 7</td>
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<td>Destinations (Dom/Int'l)</td>
<td>61 / 18</td>
<td>43 / 20</td>
<td>30 / 2</td>
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<td>Daily Flights</td>
<td>250</td>
<td>395</td>
<td>254</td>
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<tr>
<td>Pax Carried in Millions (Jan – Aug 2008)</td>
<td>4.489</td>
<td>6.389</td>
<td>4.176</td>
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<td>Domestic Market Share (2007)</td>
<td>18.97 %</td>
<td>22.58 %</td>
<td>12.21 %</td>
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<tr>
<td>Domestic Market Share (Jan – Aug 2008)</td>
<td>15.69 %</td>
<td>22.33 %</td>
<td>14.60 %</td>
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<tr>
<td>Seat Factor (Aug 2008)</td>
<td>55.2 %</td>
<td>69.3 %</td>
<td>59.0 %</td>
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<tr>
<td>Operating Revenue in Millions (2006-07)</td>
<td>63,665.4</td>
<td>70,578.0</td>
<td>15,084.6</td>
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<tr>
<td>Operating Expenses in Millions (2006-07)</td>
<td>78,364.9</td>
<td>71,098.2</td>
<td>20,415.3</td>
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<tr>
<td>Operating Result in Millions (2006-07)</td>
<td>-14,699.5</td>
<td>-520.2</td>
<td>-5,330.6</td>
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<td>Owner</td>
<td>Business Group</td>
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<td>Naresh Goval</td>
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<td>Govt. of India</td>
<td>Naresh Goval</td>
<td>Kingfisher</td>
</tr>
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Source: Adapted from Bansal, S. C., Khan, M. N., & Dutt, V. R. (2008a). Economic liberalisation and civil aviation industry. Economic & Political Weekly, 43(34), 7. 6
operates over 395 flights daily. Flights to 63 destinations span the length and breadth of India and beyond, including Colombo, Kathmandu, Dhaka, Bahrain, Dhaka, Singapore, Kuala Lumpur, Bangkok, London, Brussels, New York, Newark, Hong Kong, Shanghai, San Francisco and Abu Dhabi. The airline plans to extend its international operations to other cities in North America, Europe, Africa and Asia in phases with the introduction of additional wide-body aircraft into its fleet.

**Kingfisher Airlines** is part of The UB Group which is one of India's largest conglomerates with diverse interests and a global presence. Kingfisher Airlines now has 254 departures a day and flies to 43 destinations with a fleet of 43 brand new aircraft. With the merger of Kingfisher Airlines and Deccan, the airline covers all segments of air travel from value fares to premium fares and offers the most flights by any single airline network in India. The combined entity now connects 64 cities in India with 424 daily departures across India.

### 2.2.3 Low Cost Carriers

**Deccan** is a part of The UB Group owned Kingfisher Airlines. Deccan presently flies to 64 destinations nation wide with a fleet of 41 brand new aircraft and operates over 250 flights daily.

**JetLite (India) Limited** is a wholly owned subsidiary of Jet Airways India Limited. It was formed in April 2007 when Jet Airways acquired ailing rival Air Sahara for Rs 14 billion. A value based airline, it provides connection to 32 cities including two international cities with 141 daily flights. Positioned as a Value based Airline, JetLite offers value for money fares, in flight meals at no extra cost, in flight shopping, frequent flier miles as a partner airline to Jet Privilege and much more.

**Spicejet** follows a typical Low Cost Carrier (LCC) business model and the company operates 18 Boeing 737 – 800 aircraft to 17 destinations. In the last three years, airline has flown over 8.1 million passengers and presently has over 10% market share.

Launched in October 2005, **Paramount Airways** is a premium service scheduled airline operating in South India connecting Chennai, Madurai, Coimbatore, Bangalore, Hyderabad, Vizag, Kochi and Trivandrum. With 52 daily flights to ten
destinations across Southern India, the airline has the maximum daily frequency of flights in all the sectors it flies. Currently airline has five aircrafts. With a fleet induction of seven more aircraft in 2008, the airline would add on another 15 more by end 2009, taking the total fleet strength to 27. Airline plans to have a fleet of 40 aircraft by end 2010 with maximum connectivity in South, West and Northern markets. Started just two years ago as India’s first all Business Class service airline, the company has done exceedingly well notching up a market share of 26% in the Southern sector.

Go Airlines (India) Private Limited is the aviation foray of the Wadia Group. The airline operates its services under the brand GoAir. GoAir launched its operations in November 2005. GoAir, a low-fare carrier launched with the objective of commoditising air travel, offers airline seats at marginal premium to train fares across India. The airline currently operates across 9 destinations through 80 daily flights. The airline uses the state-of-the-art Airbus A320 aircraft fleet. GoAir plans to increase its fleet size to 18 by March 2009 and 34 to March 2011 to induct new routes while efficiently servicing existing ones.

IndiGo Airline currently operates 19 aircraft with 118 daily flights connecting 17 destinations, including Agartala, Ahmedabad, Bangalore, Bhubaneshwar, Chennai, Delhi, Goa, Guwahati, Hyderabad, Imphal, Jaipur, Kochi, Kolkata, Mumbai, Nagpur, Pune and Vadodara. IndiGo plans to serve approximately 30 Indian cities by 2010, with a fleet of approximately 40 A320s.

2.3 Growth of Civil Aviation Industry in India

The civil aviation sector in the country has witnessed a boom as passenger traffic and cargo movement have both registered exponential growth (MoCA, 2007b). This change has been largely due to the open sky policy of increased liberalization in both domestic and international sectors. The year 2007 especially witnessed remarkable growth in air passenger traffic. Domestic airlines carried a total of 43.2 million passengers during 2007 compared to 32.7 million in the preceding year, resulting in growth of about 33 per cent (Sinha, 2008). Moreover, the scheduled domestic air services are now available at about 82 airports as against 75 in 2006 (MoCA, 2007a).
With less than 1 percent of its population currently traveling by air, India's growth potential in this sector appears to be phenomenal. Within a period of 15 years, the number of carriers has grown from 2 to more than 10. Over 135 aircraft have been added in the past two years (CAPA, 2007a). Exhibit 2.2 details the growth of domestic passenger traffic during the last 10 years.


2.4 Quality of Customer Service in Airlines of India

Air India has been awarded the 5th "Mera Brand Award" after it was voted the "Most Preferred Domestic Airline" in the country at the Consumer World Awards ceremony in New Delhi on March 19, 2008. Air India won the Reader's Digest Trusted Brand Gold Award 2008 in the Airline category.

Jet Airways has won numerous awards for service excellence, including "Indian Domestic Airline with Spectacular Growth" and "India's Most Popular Domestic Airline" by SATTE (South Asia Travel and Tourism Exchange) in April 2006. Jet Privilege - Jet Airways' Frequent Flyer programme for the third year in succession was conferred the Freddie Award, this time in the highly coveted category of
"Programme of the Year" for Japan, Australia, Asia and Pacific regions. At the 19th Annual Freddie Awards ceremony, Jet Privilege is the only programme to be featured in the 'TOP 5' in all the 9 categories of the Freddie awards. At the core of Jet Airways quality systems are well-defined processes (Indian Management, 2004). The Chairman of Jet Airways, Naresh Goyal, was honoured with the ‘Business Person of the Year’ award at UK Trade and Investment India Business Awards 2008 for his significant contribution to India-UK business relations and for making the UK a strategic and pivotal destination in Jet Airways’ aggressive international expansion plans.

With the merger of Kingfisher Airlines and Deccan, the airline covers all segments of air travel from low fares to premium fares and offers the maximum number of flights offered by any single airline network in India. While Kingfisher serves the luxury segment, Deccan caters to the broadest spectrum of travelers in India and offers value added services at the most competitive fares. The result is a world-class airline promising efficient service, the highest standards of safety and on time performance. Kingfisher Airlines has recently been conferred the '5 - Star Airline Status', the most recognized and prestigious award that honours airline Product and Service Quality Excellence, by Skytrax, the world’s leading, independent travel forum and air travel information organization. Kingfisher Airlines is India’s first and only 5-Star airline and the only one to offer a premium first class service on domestic routes. Besides being the first and the only airline to offer in-flight entertainment on every seat in the domestic skies, Kingfisher Airlines is the only one to offer LIVE TV with 16 channels of live & exciting content. Kingfisher Airlines has received 30 awards for innovation, customer responsiveness and was voted the ~Best New Airline of the Year~ within months of its launch.

Deccan has been adjudged the Best Domestic Low Cost carrier 2007 for the second year in a row by Galileo Express TravelWorld Awards. SpiceJet was recognized as the Best Low Cost Airline for 2007 by TAFI (Travel Agents Federation of India), awarded at Kota Kinabalu, Malaysia. A public opinion survey by Outlook Traveler, a leading travel magazine (2008 Feb), has ranked SpiceJet as the best airline for its services, efficiency, connectivity and value for money over other low cost carriers. With a Technical Dispatch Reliability of 99.6% - better than the world average and with On Time Performance of over 80% - it has become the low - cost airline of
choice for all. Over 40% of its passengers are business travellers, 45% are repeat travelers and over 90% of the passengers have recommended the airline by word of mouth.

Paramount Airways is the first premium service, all business class airline. The top quality service includes state-of-the-art Embraer aircraft, luxurious recline window or aisle seating, airport valet service, round-the-clock lounge access, gourmet meals and personalized in-flight attention. Paramount Airways, the leading airline in South India has been awarded “The Century International Quality Era” in the gold category at the International Quality Convention in Geneva Switzerland in March 2008. This international award has been given to Paramount for furthering our reputation and position by implementing customer service excellence through quality and innovation. In 2007, the airline won the prestigious “International Arch of Europe Award” for technology and innovation and the ‘Award of Excellence’ conferred by the Institute of Economic Studies.

GoAir is positioned as ‘the Smart People’s Airline’. It’s captivating theme, ‘Fly Smart’ is aimed at offering passengers a consistent, quality-assured and time-efficient service through ‘pocket-friendly’ fares. GoAir is based on ‘punctuality, affordability and convenience’ business model. The airline has a strategic tie-up with Singapore Airlines Engineering Company (SIAEC), one of the Best engineering companies in the world, for the maintenance and engineering requirements of its aircraft. The airline has also partnered with Radixx International, a leading technology provider of automated aviation and travel related software solutions, for the use of its Air Enterprise. The adoption of such technology solutions enables GoAir to achieve superior process efficiency, thereby helping transfer a greater portion of time savings to its passengers. In March 2008, GoAir has won the PATWA award for “Best Domestic Airline For Excellence in Quality and Efficient Service” at Global Tourism Event – ITB, Berlin, in a very stiff competition amongst airlines of Asia Pacific Region. This is the second consecutive year that GoAir has been awarded this prestigious award.

Indigo airline was awarded “Best Low-Fare Carrier in India for the year 2007” by the Air Passengers Association of India (APAI).
2.5 Challenges

The global crisis resulting from high oil prices and declining traffic has hit India hard. Growth has slowed from 33% in 2007 to 7.5% for the first six months of this year (2008). Indian carriers are likely to post US$ 1.5 billion in losses in 2008, the largest outside the US (Concil, 2008; Bisignani, 2008b). Jet airway's per-day losses are said to be Rs 90 million to Kingfisher's Rs 50 million and the merged carrier Air India's Rs 100 million (Pinto 2008). Spicejet is projecting a loss of upto Rs 1 billion in 2008. Wilbur Ross, the US billionaire, has picked up strategic stake in Spicejet by investing 3.45 billion rupees (£40 million) into SpiceJet. Even the Wadia Group firm GoAir plans to offload 26 percent stake in the low-cost carrier. Domestic airlines have lost around Rs 35 billion in 2006-07 (DGCA, 2008). Table 2.2 gives the detailed financial results of scheduled domestic airlines during 2006-07.

Phenomenal growth in the airline sector in India has no doubt thrown up exciting opportunities and, at the same time, challenges too. Aviation infrastructure in major cities is already witnessing excessive pressure, particularly during peak hours. Furthermore, there are some other issues that need to be addressed by the stakeholders in the industry if they wish to improve the situation. Some of these challenges are given below:

Declining yields: LCCs and other new entrants command about two-fifths of the market share. During a time of escalating costs, legacy carriers are forced to match LCC fares. More players are being attracted owing to growth prospects which imply more competition at lower fares. Thus, to survive and grow, airlines have to build on their cost efficiencies and other economies. Distribution cost one of the key ‘controllable’ expenditures in an air carrier’s cost structure; thus an effective and efficient distribution mechanism goes a long way in making an airline successful (Ramachandran, 2005). The proposed entry of at least four regional aviation start-ups - Air Dravida, Star Aviation, MDLR Airlines and Trans India - could cause further headaches and even delay the break-even for existing airlines.

Gaps in Infrastructure: The fast pace of growth of Indian airline industry has created a huge vacuum in the infrastructure required to support this increase in number of passengers, aircraft and flights. Infrastructure is the weak link in the chain (Pitalwalla, 2006). India’s airports are expensive and overcrowded with low service
<table>
<thead>
<tr>
<th>Description</th>
<th>Indian Airlines</th>
<th>Jet Airways</th>
<th>Jet Lite</th>
<th>Air Deccan</th>
<th>SpiceJet</th>
<th>KingFisher</th>
<th>Paramount</th>
<th>GO Air</th>
<th>Indigo</th>
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<tr>
<td><strong>A – Operating Revenue</strong></td>
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</tr>
<tr>
<td>a. Passenger</td>
<td>52.825.0</td>
<td>64.900.8</td>
<td>19.344.2</td>
<td>16.900.0</td>
<td>7.101.5</td>
<td>13.135.0</td>
<td>2.523.4</td>
<td>3.393.6</td>
<td>2.136.1</td>
<td>182.259.6</td>
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<td>b. Excess Baggage</td>
<td>376.2</td>
<td>334.5</td>
<td>201.0</td>
<td>203.1</td>
<td>118.1</td>
<td>9.8</td>
<td>22.0</td>
<td>14.5</td>
<td>0.0</td>
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<td>c. Freight</td>
<td>2.275.3</td>
<td>4.029.9</td>
<td>429.0</td>
<td>0.0</td>
<td>72.7</td>
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<td>0.0</td>
<td>65.7</td>
<td>14.7</td>
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<td>d. Mail</td>
<td>303.3</td>
<td>81.5</td>
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<td>19.974.2</td>
<td>17.103.1</td>
<td>7.292.3</td>
<td>13.612.6</td>
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<td>3.473.8</td>
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<td>2. Non Scheduled Services</td>
<td>2.211.5</td>
<td>148.3</td>
<td>10.0</td>
<td>542.3</td>
<td>0.0</td>
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<td>0.0</td>
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<td>3.012.10</td>
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<td>3. Other Operating Revenues</td>
<td>5.674.1</td>
<td>1082.9</td>
<td>169.1</td>
<td>367.76</td>
<td>282.1</td>
<td>1472.0</td>
<td>4.4</td>
<td>8.8</td>
<td>12.0</td>
<td>12.383.00</td>
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<td><strong>Total Operating Revenue</strong></td>
<td>63.665.4</td>
<td>70.578.0</td>
<td>20.153.3</td>
<td>21.423.0</td>
<td>7.574.4</td>
<td>15.084.6</td>
<td>2549.8</td>
<td>3.482.6</td>
<td>2.162.8</td>
<td>206.673.90</td>
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<td><strong>B – Operating Expenses</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1. Flight Operations</td>
<td>33.983.3</td>
<td>33.679.5</td>
<td>16.000.7</td>
<td>15.019.6</td>
<td>5.818.8</td>
<td>11.102.4</td>
<td>1.073.5</td>
<td>3.898.8</td>
<td>2.783.8</td>
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<td>2. Maintenance and Overhaul</td>
<td>16.802.6</td>
<td>5.818.4</td>
<td>3.267.4</td>
<td>2.734.4</td>
<td>735.8</td>
<td>1.906.2</td>
<td>33.0</td>
<td>433.5</td>
<td>44.3</td>
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<td>3. Depreciation and Amortization</td>
<td>3.112.7</td>
<td>4.141.0</td>
<td>108.4</td>
<td>439.1</td>
<td>77.0</td>
<td>490.0</td>
<td>68.8</td>
<td>23.8</td>
<td>76.5</td>
<td>8.537.30</td>
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<td>4. User Charges &amp; Station Expenses</td>
<td>3.727.3</td>
<td>6.869.6</td>
<td>1.097.2</td>
<td>3.425.3</td>
<td>678.6</td>
<td>1.941.5</td>
<td>166.0</td>
<td>347.6</td>
<td>274.6</td>
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<tr>
<td>5. Passenger Services</td>
<td>3.977.4</td>
<td>4.217.0</td>
<td>533.5</td>
<td>414.0</td>
<td>1.064.5</td>
<td>1.269.1</td>
<td>243.7</td>
<td>33.9</td>
<td>32.8</td>
<td>11.413.30</td>
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<td>6. Ticketing Sales and Promotion</td>
<td>8.145.9</td>
<td>8.399.2</td>
<td>2.390.6</td>
<td>137.6</td>
<td>199.1</td>
<td>1.521.2</td>
<td>116.5</td>
<td>239.7</td>
<td>250.4</td>
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<td>7. General &amp; Administrative</td>
<td>3.182.6</td>
<td>7.973.6</td>
<td>2.317.6</td>
<td>316.3</td>
<td>93.2</td>
<td>14.1</td>
<td>76.0</td>
<td>657.2</td>
<td>239.2</td>
<td>17.716.80</td>
</tr>
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<td>8. Other Operating Expenses</td>
<td>5.433.1</td>
<td>0.0</td>
<td>0.0</td>
<td>574.0</td>
<td>2170.7</td>
<td>527.3</td>
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<td>202.5</td>
<td>8.907.60</td>
<td></td>
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<td><strong>Total Operating Expenses</strong></td>
<td>78.364.9</td>
<td>71.098.2</td>
<td>25.715.4</td>
<td>24.960.7</td>
<td>9241.0</td>
<td>20.415.3</td>
<td>2306.6</td>
<td>5.634.6</td>
<td>3.964.2</td>
<td>241.640.90</td>
</tr>
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<td><strong>C – Operating Result</strong></td>
<td>-14.699.5</td>
<td>-520.2</td>
<td>-5.562.1</td>
<td>-3.537.7</td>
<td>-1.666.6</td>
<td>-5.330.6</td>
<td>243.2</td>
<td>-2.152.0</td>
<td>-1.741.3</td>
<td>-34.866.80</td>
</tr>
<tr>
<td><strong>D – Non-Operating Items (Balance)</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Profit After Extra Ordinary Items</td>
<td>-3.263.2</td>
<td>279.4</td>
<td>-6.896.7</td>
<td>-4.195.7</td>
<td>-721.5</td>
<td>-5.773.1</td>
<td>16.3</td>
<td>-2.374.7</td>
<td>-2.017.9</td>
<td>-24.947.10</td>
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</tbody>
</table>

levels (Malviya & Barman, 2006; Bisignani, 2007). Airport and Air Traffic Control (ATC) facilities are inadequate to support such growth (Bhargava, 2005). In totality, aviation infrastructure is the cheapest to build, with the maximum impact (Patel, 2007). Thus there is an urgent need for upgradation of infrastructure at major airports at Delhi, Mumbai, Chennai, Kolkata and Bangalore to handle increasing passenger load. Some other issues that need to be immediately addressed include:

- Higher fuel consumption due to long holding times - on ground as well as in air
- Lower utilisation of aircraft resulting from slot constraints and air traffic congestion
- Sub-optimal route network strategies because of insufficient night parking stands at major airports, and
- Lack of advanced navigational aids like Approach Lighting System (ALS) at the airports

While a beginning has no doubt been made in the context of upgrading of existing infrastructure, the results, at current sluggish pace, may be visible after a few years.

**High Input Costs:** Higher Aviation Turbine Fuel (ATF) prices are largely responsible for the red ink on the books of airlines in India. ATF, which used to constitute around 40 percent of the operating cost for airlines, now accounts for up to 50 percent after the prices of fuel have tripled during the last three years (Pinto, 2008). ATF prices have gone up from Rs 26,000 per kilolitre in 2005 to more than Rs 70,000 in June 2008 (Bansal, Khan & Dutt, 2008a). Airlines have been regularly topping the base fares by fuel surcharge and congestion fee, which have increased to Rs 2,400 for distances below 750 km and Rs 3,150 for longer flights. It is likely to increase further on account of increase in jet fuel charges by the oil companies.

Aviation Turbine Fuel (ATF) prices continue to be abnormally high in India compared to those charged globally. In fact, fuel costs in India are about 65 percent higher than international standards (CAPA, 2007a). ATF cost / kilolitre is USD 755 in Delhi and USD 780 in Mumbai as against USD 455 in Singapore and USD 497 in Dubai (Trivedi, 2007). High basic rates are aggravated by heavy taxes imposed by State Governments. These prices are around 40 percent higher than international prices due to higher base price and taxes. Sales tax on ATF varies from 20 to 30
percent in most states, while excise and customs duties on the fuel are 8 percent and 5 percent respectively. Taking note, Central Government has announced a cut of 5 percent in customs duty on ATF, resulting in 4.3 percent reduction in fuel price by State-run oil companies. To ease the burden, soon the State Governments too plan to discuss the issue of reduction in sales tax after getting full details of price fixation of ATF from the civil aviation ministry.

Consequently, the Indian aviation industry has all along been lobbying hard for a better deal in terms of lower ATF prices matching international levels. To make the matter worst, there is unfair discrimination between turboprops and regional jets with latter being charged higher sales tax for their fuel needs compared to the former. The fact that fuel costs constitute a significant part (35 – 50%) of the total operating costs of airlines necessitates the need of utilizing the derivatives to fix their costs allowing them to stay competitive and yet remain healthy (Shunmugam, 2008).

Other reasons for high input costs are increased maintenance charges, high aircraft lease rentals, and high manpower costs due to shortage of skilled technical personnel. Exhibit 2.3 gives the comparative input costs for FSCs and LCCs in India.

As a result of price increase, passenger load has fallen to an average of 55 to 60 percent per flight from last year’s (2007) peak of 70 to 75 percent. A drop of 15 percent is expected in domestic business traveler, who constitutes approximately 60 percent of Rs 18,000 crore domestic air travel market. International monitors have reduced the forecast for Indian market as a result of the slowdown in the aviation sector. Signals related to cash-flow problems and the capital crunch owing to rising operational costs and subsequent falling demand are already emanating from the industry.

**Lack of Skilled and Qualified Personnel:** There is a severe lack of skilled and qualified personnel right across the sector, even at today’s air traffic levels. The shortage is particularly noticeable in case of pilots, licensed engineers, air traffic controllers, cabin crew and other skilled staff required to manage passengers, baggage and cargo. This will only be exacerbated by the growth in the industry.
Exhibit 2.3: Comparative Cost Structure of FSCs and LCCs in India

**FSC - Public**
- Airport Charges: 5%
- Selling & Distribution: 6%
- Depreciation: 6%
- Maintenance Charges: 12%
- Payroll: 20%
- Fuel: 35%

**FSC - Private**
- Other Operating Expenses: 16%
- Aircraft Lease and Rental: 8%
- Airport Charges: 6%
- Selling & Distribution: 14%
- Depreciation: 8%
- Maintenance Charges: 6%
- Payroll: 10%
- Fuel: 32%

**LCC**
- Other Operating Expenses: 17%
- Aircraft Lease and Rental: 8%
- Airport Charges: 8%
- Selling & Distribution: 5%
- Maintenance Charges: 10%
- Payroll: 11%
- Fuel: 44%

**Excess Capacity:** The industry currently has an overcapacity of about 20 percent. Airlines have not just started cutting down their route expansion plans but are also canceling flights on certain low-traffic routes. South India is facing most of the cancellations because the new airports at Hyderabad and Bangalore require quite a bit of city travel. Passengers are not willing to travel these distances for short distance flights. Faced with these bleak prospects, airlines are even canceling or cutting deliveries of new aircraft due this year or sub-leasing them to other global carriers.

In the backdrop of high jet fuel costs and excess capacity in the market, most of the full service carriers are significantly cutting costs by slashing employee allowances, reducing in-flight catering expenses on short-haul flights, cutting maintenance costs, restructuring their processes and increasing dependency on internet as a sales channel, whereas low-cost airlines are increasingly adopting additional types of sales and services like sharing ticket reservation systems or entering into code-share agreements so as to improve passenger load. Jet Airways has signed a two-year contract with Shell-MRPL (Mangalore Refinery and Petrochemicals Limited) joint venture for supply of ATF, while Kingfisher is exploring the option of directly importing ATF. Airlines are also talking about collaborating for operational synergies. Air India, Jet Airways and Kingfisher Airlines plan to save around Rs 10 billion by moving towards a zero-commission structure for travel agents.

If the current aviation scenario persists, domestic carriers may move towards second round of mergers and acquisitions as smaller low-cost airlines, hurt by rising fuel prices and decreasing passenger load seek a graceful exit. Perhaps consolidation and restructuring are the way to go for Indian carriers to beat losses and stay afloat.

To make their voice heard, at the start of 2007, domestic airlines formed an umbrella organisation under the banner Federation of India Airlines (FIA) (Pandit, 2007). It aims to look at common issues affecting all the airlines, undertake research, bring out reports and publish papers to convince and support the Government in making informed decisions.
A concerted implementation of the above measures would go a long way in overcoming the challenges mentioned above and lowering costs for the commercial aviation, thereby making air transport more affordable and its use more widespread.

2.6 Opportunities

There is no doubt that the future of Indian aviation sector appears to be bright with huge potential for growth. Estimates suggest that every $100 spent on air transport produces benefits worth $325 to the economy and 100 additional jobs in air transport result in 610 new other jobs (Brady, 2007). It is expected that 4 million aviation jobs will be created in the next 10 years (PTI, 2007a). Some of the emerging opportunities for different stakeholders in the aviation industry are discussed below.

**Large and growing potential market:** India is the fourth largest and second fastest growing economy in the world registering a GDP growth of 9.2 percent in Q3 (2006). The disposable income of India’s 300 million middle class is expected to increase at an average of 8.5 percent per annum till 2015. Domestic tourism market is already 390 million strong, growing at around 13 percent with foreign tourists touching 4.43 million mark and trends suggesting a growth of around 13 percent. All of these factors present a huge market which can be tapped by the players in the civil aviation industry. Beginning has already been made by different airlines by offering a number of attractive packages.

**Air Cargo:** Freight carriage in India is currently at around 4,200 tons per day with Compounded Annual Growth Rate (CAGR) of 15 percent over the past 2 years. It has been fuelled by a fast growing economy with strong industrial base. The air cargo demand is forecast to grow at 11.4 percent per annum till 2011-12. To support the growth in the cargo sector, the MoCA is proposing exclusive cargo airports, which may be privately owned. The MoCA has also raised FDI from 49 per cent to 74 per cent in the cargo sector to facilitate building of cargo airports at various business centres across the country.

Currently Blue Dart, owned by DHL Express, is the main player in the market. It currently has six aircraft: four Boeing 737 and two Boeing 757 freighters, providing a network payload of 250 tones across 60 route connections each night. Air India Cargo, a wholly-owned subsidiary of NACIL, plans to lease freighter aircraft and
increase its revenue by 10 per cent to around Rs 9 billion by 2008-09. According to Chairman of Jet Airways, Mr Naresh Goyal, Jet Airways also plans to launch a cargo airliner in 2008 (Choudhury, 2007).

**Infrastructure to Support the Indian Civil Aviation Industry:** The growth in domestic aviation sector has necessitated infrastructure upgrade. Approximately $110 billion will be invested in the Indian Civil Aviation industry by 2020 - $80 billion on aircraft and $30 billion on infrastructure (Chawla, 2007). Development of airport infrastructure is being undertaken through the Public-Private-Partnership (PPP) route in major metro cities like Delhi, Mumbai, Bangalore and Hyderabad while modernization of Kolkata and Chennai airports is being undertaken by the AAI (Pilling, 2005; MoCA, 2007b). The aim of the government is to transform these airports into world-class facilities without any delay through this hybrid mechanism. AAI has also undertaken an ambitious project to modernize 35 non-metro airports. It is expected that terminal buildings and associated side works in 24 airports will be completed by March 2009 whereas in the remaining 11 airports, it would be completed by March, 2010 (MoCA, 2007b).

The Government is upgrading the Civil Navigation System (CNS) and Air Traffic Management (ATM) infrastructure to ease congestion at the existing airports. The aim is to improve management of the sky and reduce flying times, allowing more flights to take off and land at the airports.

**Maintenance, Repair and Overhaul (MRO):** At present, there is no large MRO centre in India. Even within 5-hour fly zone from India, this facility does not exist. D checks¹ are done overseas mainly in Dubai and Singapore. Huge investment is required to ensure servicing and maintenance of increasing fleets. There is a growing demand for airframe, engine and component overhaul facilities. Thus, there exists an opportunity for entrepreneurs to tap the MRO business. India offers substantially lower labor cost - 60 percent lower than Western Europe and USA. The MRO facilities, once established in India, can tap the international market as well due to competitive rates for labour and other facilities. The Government too has recognized the potential and has permitted 49 percent FDI in MRO business.

Some positive developments in this segment have already taken place. Gulf Aircraft Maintenance Company (GAMCO) has signed a maintenance support agreement for
10 Kingfisher Airlines Airbus A320 aircraft. NACIL has a tie-up with CFM, a joint venture between Snecma (SAFRAN Group) and GE Aviation to establish a joint venture MRO facility in India for CFM56 engines. KLM has agreements with other airline companies such as Spicejet, Jet Airways and JetLite for MRO services. Kingfisher Airlines, GMR Group; Lufthansa Technik AG, Germany; Jupiter Aviation (in consortium with European Aeronautic Defence & Space); and NACIL are also planning to set up comprehensive MRO facilities in India.

**Ground Handling:** Ground handling work entails two basic activities — (i) passenger handling at the landside and ramp, including loading and unloading of aircraft, and (ii) aircraft handling. Currently, all airlines do their own ground management, which involves handling of passengers and baggage at the airport and loading or unloading of aircraft. The DGCA has notified that starting from January 1, 2009, only three designated agencies would be allowed to carry out ground handling functions at six metro airports in the country:

1. The airport operator itself or its Joint Venture (JV) partner,

2. Subsidiary companies of the national carrier Air India or its joint ventures specialised in ground handling services.

3. Any other ground handling service providers selected through competitive bidding on revenue sharing basis by the airport operator.

After implementation of the aforesaid policy, functions such as loading, unloading and delivery of baggage from the aircraft; cabin cleaning; transportation of passengers from terminal to tarmac and vice-versa would go out of the private airlines’ purview. For all other airports in the country, airline operators, in addition to the three designated agencies, would be allowed to undertake self-handling. The Government, however, has not allowed foreign airlines to undertake self-handling.

India’s ground handling market is estimated to be Rs.11 billion (USD 247.8 thousand) per annum. NACIL presently enjoys 55-percent market share in the Indian ground handling business (Zatakia, 2007). It is expected to grow at 15 percent CAGR till 2011-12. Significant opportunities exist for entrepreneurs in the form of third party handling as well as entering into service contracts with private airports / AAI to offer comprehensive ground handling solutions. Air India and Singapore Airport Terminal Services (SATs) have formed a joint venture AISATS to provide
ground handling services to domestic and international carriers at Bangalore and Hyderabad International Airports.

**Training:** Airlines in India will, in near future, need trained pilots, engineers, cabin crew and other ground handling staff. There is projected requirement for 3,600 additional pilots in the short-to-medium term. Entrepreneurs can capitalize on the emerging demand for (i) training establishments for cabin crew, engineers and other staff and (ii) flight simulators for training pilots.

At present, there are 39 flying schools in India which are authorised to train for various licences such as Private Pilot Licence and Commercial Pilot Licence. 28 of these institutions are controlled by State Governments. The remaining 11 are operated by private entrepreneurs. These schools produce about 150 commercial pilots each year. DGCA has received 37 proposals to set up new flying training institutes in India.

Existing players have already taken some steps to tap this potential. NACIL has a Central Training Establishment at Hyderabad, and Jet Airways has pilot training centre at Mumbai. Budget-carrier Deccan has tied up with Frankfinn Institute of Air Hostess Training as an exclusive cabin crew partner. Kingfisher Training Academy is launching 12 new centres by February 2008 to meet the acute shortage of manpower in the airlines and hospitality sectors.

**Leveraging the Internet:** Increasing number of passengers are booking their tickets directly on the airlines’ websites. Traditional sales channels with paper tickets cost airlines around 10 percent of ticket price. On the other hand, e-ticket sale from own website costs an airline only 3 percent of ticket price. For every direct booking on their website, airlines save an estimated USD 4 plus 5 percent agency commission (Trivedi, 2007). Airlines can also turn their websites into one stop shops for all travel related services, generating additional revenue.

**Access to new markets:** The existing civil aviation policy allows overseas flights only to those domestic airlines that have at least five years’ experience in the domestic market. It is also necessary to have a minimum fleet of 20 aircraft to be eligible to fly overseas. Consequently, at present NACIL, Jet and JetLite have the permission to fly abroad. Deccan is expected to join soon as it completes its five years of commercial operations on August 26, 2008. The Ministry of Civil Aviation
has given its traffic rights approval to Jet Airways on the India-Gulf/Middle East routes with effect from 1st January 2008. Jet Airways has already launched flights to Kuwait, Muscat, Doha and Bahrain, becoming India's first private air carrier to fly to the Gulf. It has also started flight on Mumbai-Shanghai route. Jet is keen on making Shanghai its hub to facilitate operations in the Asia-Pacific region. Thus, these airlines will have access to new revenue streams and that may help even out the seasonality factor in their domestic operations.

It will also spread the risk of downturn in a single market. However, the above opportunities will pose a challenge to the some of the existing players as the risk – cycle of increased competition, low yields, and growth will be transferred to the international arena leading perhaps to more cut-throat competition.

### 2.7 Future Prospects

India’s aviation sector is a sunrise industry and will require an investment of over USD 120 billion over the next ten years (Ionides, 2007). Two-thirds of this amount is likely to be absorbed by aircraft purchases and the remaining would be used for developing infrastructure. The number of civilian aircraft in the country is estimated to swell from 350 to 1000 by 2020. Domestic passengers for the industry are forecasted to rise from 35 million currently to 182 million by 2020. As the competition gets fiercer, fares would be further reduced and new routes would be added to the existing itinerary. Airfares on metro-to-metro routes are expected to come down, largely due to the competition driven by the IPO-powered aircraft acquisition spree. Non-metros may not experience significant reduction in fares.

A booming market always attracts new players. Indians have emerged as big buyers at the Paris Air Show in 2005 with orders for 160 aircraft, worth USD13 billion (Spaeth, 2005). In fact, domestic operators have plans to acquire 434 new carriers.

The MoCA has recently announced new guidelines for airlines planning to start regional operations between smaller cities or connecting towns and India’s large cities with small planes that can seat up to 100 passengers. Four companies – M/s MDLR Airlines Private Limited and M/s Jagson Airlines for Northern Region, M/s Star Aviation for Southern Region and M/s Zav Airways for North-East – have been
shortlisted by the Ministry for awarding license to start regional services (MoCA, 2008). Thus, this sector is bound to witness more action in the near future.

2.8 Chapter Summary

Indian aviation market is growing at a scorching pace. Private airlines have changed the rules of the game in the Indian civil aviation sector in recent years. The entry of budget airlines like Deccan, introduction of cheap airfares by other domestic carriers, rising levels of income and growing aspirations of people have created a new paradigm: air travel is no longer reserved for the elite. The guidelines that regulate the sector are under constant review. Gradually, the bureaucratic hurdles are being removed allowing Indian airlines to compete internationally in in-flight entertainment, cuisine, comforts and other services. These reforms along with boom in the Indian economy have led to the high level of growth in the industry (Bansal, Khan & Dutt, 2008a).

Despite a growing market, ironically, airlines in India are fighting for survival. CAPA projects combined losses of US 400-500 million for financial year 2008-09 (CAPA, 2008). A host of initiatives are required to tide over the current situation. For service providers, there is a pressing need to control costs and improve quality of service. The government needs to liberalise rules and regulations governing civil aviation, without compromising on safety and security. It may reduce ATF prices, adjust tax rates, revise lease rentals, and speed up development of infrastructure to match growing demand. The airlines as well as entrepreneurs may jointly develop a large pool of skilled/technical manpower and attract more professionals to manage the aviation industry.

Overall, the current state of Indian aviation industry portrays mixed shades. On the one hand, a significant enthusiasm in the aviation sector is primarily attributed to the increased number of private players and emergence of competitive environment. On the other hand, it is also evident that there is a need to strengthen infrastructure network by speedily implementing the proposed projects.