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Aviation Sector in India: A Cross Boundary Comparison Priority on Air India

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ABSTRACT
According to International Air Transport Association's (IATA) Airline Industry Forecast 2012-2016, India's domestic air travel market would be among the top five globally, experiencing the second highest growth rate at CAGR of 13.1%.India has the potential to become the third largest aviation market by 2020 and the largest by 2030. There is large untapped potential for growth due to the fact that access to aviation is still a dream for nearly 99.5 per cent of its population. Financial year 2012-2013 shows an increase of revenue by 30,164.3 million in comparison to the base year. All these borrowings are part of Turnaround Plan to ease Air India out of the debt burden of Rs 40,000 Crores. It would be wrong, however to say that such capital infusion has yielded no results. After the implementation of the financial restructuring plan as approved by the UPA in 2012, the operating losses have halved from Rs 5,138.69 Crores in FY 2012 to Rs. 2,171.40 Crores in FY 2015 while net loss has climbed down from Rs. 7,559.74 Crores in FY 2012 to Rs.5,547.47 Crores in FY 2015.

The airline had demanded around Rs 1,777 Crores more than the budgeted from the current government. This unexplained cut means that the airline is distressed and might lead to deficit of government guaranteed loans which in turn will lead to compulsory borrowings from banks. If the banks are restricted to lend to the Company that is functioning at a loss of Rs 21.71 Billion, then Air India might have to raise funds from the market at higher cost further putting stress on its already besieged resources. At a time when the Aviation Sector seems on a high, it is demotivating that Air India's prospects to raise capital from the public seems shaky at best. The National Carrier had also approached the FinMin to allow it to raise Rs 10,000 Crore as capital in the form of tax free Bonds. The Government turned sour on the proposal and was reluctant to act as a guarantor in such a deal.

Keywords: Aviation Sector, Turnaround Plan, Capital Infusion, Air India, International Air Transport Association's (IATA)

I. INTRODUCTION

Indian aviation sector has witnessed a remarkable growth story in the last decade with robust growth in passenger and cargo traffic, huge jump in the number of aircrafts operating in the country, an impressive increase in the non scheduled operators, surge in investment in the airport infrastructure, rapid rise in the number of operational airports, modernization and augmentation of capacities at various metro and non-metro airports and much more.

Rapidly expanding air transport network and opening up of the airport infrastructure to private sector participation have fuelled the growth of the air traffic in the country. India is likely to be the fastest growing aviation market in the world in the next 20 years. Indian airport system is poised to handle 336 million domestic and 85 million international passengers by 2020, from the current level of 121 million domestic and 41 million international passengers, making India the third largest aviation market. According to International Air Transport Association's (IATA) Airline Industry Forecast 2012-2016, India's domestic air travel market would be among the top five globally, experiencing the second highest growth rate at CAGR of 13.1%.

The second phase of growth in Indian aviation is expected to come from Tier-II and Tier-III cities. The non-metro airports presently account for only about 30% of the total air traffic, which is expected to rise to 45% in the next few years, representing vast untapped future market potential. With smaller cities set to lead the air traffic growth in the country, the government is planning to build nearly 200 low-cost airports in the next 20 years to meet the demand.

The airline industry in India has historically been dominated by a few players with Air India and Jet Airways together dominating the domestic passenger market. However, in the last decade, the industry has become more fragmented with the entry of full service carriers such as Kingfisher Airlines and low cost carriers including the erstwhile Air Deccan (since merged with Kingfisher), SpiceJet, Indigo and GoAir . Evolution of Civil Aviation Industry in India Indian aviation industry began with the establishment of Tata

Airlines in 1932, through the business relationship between Mr. Neville Vincent, a Royal Air Force pilot and Mr. JRD Tata. Tata Airlines was rechristened as Air India in August 1946. In 1953, the Air Corporation Act nationalized all existing airline assets and established the Indian Airline Corporation and Air India International to cater to domestic and international air services respectively. The operations of scheduled air transport services became a monopoly of these two Corporations and the Act prohibited any person other than the Corporations or their associates to operate any scheduled air transport services from, to, or within India. However, in order to boost tourism and enhance domestic air services, private airlines were given permission to operate charter and non-scheduled services under the 'Air Taxi' scheme in 1986.

Under the 'Air Taxi' scheme they could not publish time schedules or issue tickets to passengers. Initially, the scheme posed a number of restrictions on the carriers including seating capacity, time restrictions, floor limits on fares and the airports from which such services could be operated from. Subsequently, the scheme was liberalised post 1990 and many restrictions including time and fare limits were relaxed.

Business travel has also grown as companies become increasingly international in terms of their investments, their supply and production chains and their customers. The rapid growth of world trade in goods and services and international direct investment have also contributed to increase in business travel.

Worldwide, IATA, International Air Transport Association, forecasts international air travel to grow by an average 6.6% a year to the end of the decade and over 5% a year from 2000 to 2010. These rates are similar to those of the past ten years. In Europe and North America, where the air travel market is already highly developed, slower growth of 4%-6% is expected. The most dynamic growth is centred on the Asia/Pacific region, where fast-growing trade and investment are coupled with rising domestic prosperity. Air travel for the region has been rising by up to 9% a year and is forecast to continue to grow rapidly, although the Asian financial crisis in 1997 and 1998 will put the brakes on growth for a year or two. In terms of total passenger trips, however, the main air travel markets of the future will continue to be in and between Europe, North America and Asia.

Airlines' profitability is closely tied to economic growth and trade. During the first half of the 1990s, the industry suffered not only from world recession but travel was further depressed by the Gulf War. In 1991 the number of international passengers dropped for the first time. The financial difficulties were exacerbated by airlines over-ordering aircraft in the boom years of the late 1980s, leading to significant excess capacity in the market. IATA's member airlines suffered cumulative net losses of $20.4bn in the years from 1990 to 1994.

Since then, airlines have had to recognize the need for radical change to ensure their survival and prosperity. Many have tried to cut costs aggressively, to reduce capacity growth and to increase load factors. At a time of renewed economic growth, such actions have returned the industry as a whole to profitability: IATA airlines' profits were $5bn in 1996, less than 2% of total revenues. This is below the level IATA believes is necessary for airlines to reduce their debt, build reserves and sustain investment levels. In addition, many airlines remain unprofitable.

To meet the requirements of their increasingly discerning customers, some airlines are having to invest heavily in the quality of service that they offer, both on the ground and in the air. Ticketless travel, new interactive entertainment systems, and more comfortable seating are just some of the product enhancements being introduced to attract and retain customers.

A number of factors are forcing airlines to become more efficient. In Europe, the European Union (EU) has ruled that governments should not be allowed to subsidize their loss-making airlines. Elsewhere too, governments' concerns over their own finances and recognition of the benefits of privatization have led to a gradual transfer of ownership of airlines from the state to the private sector. In order to appeal to prospective shareholders, it is necessary for the airlines to become more efficient and competitive.

II. LITERATURE REVIEW

As per "The Hindu" dated October 20 , 2014 : State-owned Air India will get around Rs 3,000 crore more in the later part of this fiscal from the Government towards capital infusion and the ailing carrier is expected to make operational profits from the next financial year, a top official of the Ministry of Civil Aviation said."Air India has a turnaround plan, under which a little over Rs 6,000 crore has to be infused this year. I think more than half of that has been given already. Another around Rs 3,000 crore will be infused by the end of the financial year," Mr.Somasundaram said during his recent visit to Visakhapatnam. National carrier Air India, which is sitting on a huge debt pile, is surviving on the Rs 30,000-crore government bailout package announced by the Government earlier. "The problem was they (Air India) had lot of uneconomical routes and lot of loss-making operations. So during the last two to two-and-half years these have been reduced. They have been successful in bringing down the loss substantially. And by 2015 they are expecting to be profitable, that is next financial year," the official said replying to query on the operational profits of the air lines." Air India recently became part of the global airlines' grouping, Star Alliance, which would enable seamless travel to over 1,300 destinations for the national carrier's passengers.

As per "THE TELEGRAPH" dated 10thMarch ,2015 :Virgin Atlantic returns to profit: The airline swung to a pre-tax profit of £14.4m, from a £51m loss a year earlier, completing a turnaround under boss Craig Kreeger. Virgin Atlantic has hailed a return to profitability at the airline following a turnaround programme that had forced "difficult decisions" upon the carrier, including abandoning its Little Red domestic service.

The carrier said it had swung to a pre-tax profit – excluding exceptional items – of £14.4m in the 12 months to December 31, having posted a £51m loss a year earlier.

The recovery is the culmination of a turnaround drive under chief executive Craig Kreeger, who took the helm in February 2013 and has cut costs in an effort to revive the airline's finances.

"We made a number of difficult decisions over the last couple of years to position the company to be successful for the future," he said, citing the scrapping of unprofitable routesto far-flung destinations such as Mumbai and Tokyo as well as the decision to end Little Red, which was only launched in March 2013.

Virgin Atlantic, which is 51pc owned by Sir Richard Branson's Virgin Group, changed its financial year-end from February, muddying direct comparisons with previous years. However, on a pro-forma basis it also posted a £102m loss in 2012. The return to profitability coincided with the carrier's thirtieth birthday.

Rival International Airlines Group, the owner of British Airways, is attempting to beef up its own long-haul operations with its €1.36bn bid for Aer Lingus, which has transformed Dublin into a transatlantic hub.

When asked whether Virgin Atlantic had considered bidding for Ireland's flag carrier, Mr Kreeger said the airline was "always looking at various alternatives" to "augment" its own services, but that Aer Lingus would not have been an appropriate fit.

"Aer Lingus has been a great partner with us on Little Red by providing operational support but we don't think it makes sense for us to be playing in that acquisition," he added.

As per "THE TELEGRAPH"dated 24th April,2014: Losses halve at Virgin Atlantic; Craig Kreeger's turn-around programme begins to take shape as lossses fall to £51m in year to December 2013. Losses at Virgin Atlantic halved in the year to December 2013 as new chief executive Craig Kreeger's turn-around programme began to take shape.

The Virgin Group-controlled airline, which celebrates its 30th anniversary this year, made a pre-tax loss of £51m in the 12 months to December.

Direct comparison for the prior year is made difficult due to a change in year-end - from February to December, bringing it in line with Virgin Group - but in the same period a year ago the loss was £102m on a pro-forma basis.

The last reported annual loss - for the 12 months to February 2013 - was £128.4m before exceptionals.

The airline emphasised that on a 10 month basis, from March to December 2013, the airline was profitable - before tax and exceptional items - to the tune of £7m.

Mr Kreeger said the airline made "good progress" last year and was on track to reach profitbality by the end of this year.

He arrived at the airline in February 2013, taking over from long-standing chief Steve Ridgway, since which time he has focused on cutting below-the-wing costs, launching Virgin's UK domestic service Little Red, and bringing the airline closer to Delta Airlines.

Delta bought a 49pc stake in Virgin Atlantic for $360m (£214m) from Singapore Airlines in December 2012.

The tie-up received regulatory approval last September, since which time the two airlines have begun to co-operate, the most visible example of which has to date has been Delta's move to Terminal 3 - from Terminal 4 - at London's Heathrow airport.

The joint venture is designed to bolster the profitability of both airlines by working together on trans-Atlantic and other routes.

"Going forward, the impact from our Delta relationship, which greatly enhances our revenue opportunities in the US...means we are confident that we will deliver on our target and return to profitability," Mr Kreeger continued.

The annual results also show that group turnover rose by 4.9pc in the year to December, including an increase in passenger revenue of £153m.

Some 6.2m passengers were flown by the airline in the year, including on its loss-making Little Red service which flies passengers between Manchester, Edinburgh, Aberdeen and Heathrow.

The airline's results include the figures for Virgin Atlantic Cargo, where sales fell 3.4pc as a result of a weak cargo market, and Virgin Holidays, which generated undisclosed profits on the back of an 8.1pc increase in revenue.

The Indian Aviation report by FICCI-KPMG ,Hyderabad, March 13, 2014 states:*Indian aviation sector has the potential to be number one globally by 2030,*

- *The Asia Pacific region is expected to emerge as the largest aviation market by 2032*
- *Indian carriers plan to double their fleet size by 2020 to around 800 aircrafts*
- *Indian civil aviation industry is amongst the top 10 globally with a size of USD 16 billion*
- *India's current MRO market size is estimated to be around USD 700 million*
- *Total manpower requirement of airlines to rise from 62,000 in FY 2011 to 117,000 by FY 2017*

India has the potential to become the third largest aviation market by 2020 and the largest by 2030. There is large untapped potential for growth due to the fact that access to aviation is still a dream for nearly 99.5 per cent of its population, indicates the FICCI-KPMG 'Indian Aviation 2014' report launched today at the most prestigious civil aviation exposition in Hyderabad.

According to the report, the Indian civil aviation industry is on a high growth trajectory, albeit with minor hiccups. The industry has ushered in a new wave of expansion driven by Low Cost Carriers (LCC), modern airports, Foreign Direct Investments (FDI) in domestic airlines, cutting edge Information Technology (IT) interventions and a growing emphasis on No-Frills Airports (NFA) and regional connectivity.

International Air Transport Association in the 2013 Annual Review Report states:

- Air connectivity is the key to economic growth.
- Safety is the number one priority for the Aviation Industry.
- Aviation security is being strengthened with a data-driven, risk-based approach.
- Indian Brand Equity Foundation in its report dated : March ,2014 states :
- India has 449 Airports and Airstrips, of which 125 airports are owned by Airport Authority Of India (AAI).
- The domination of AAI in Aviation Industry along with the rising participation of the Private Sector.
- Policy supports aiding the growth of Aviation Industry in India.

In an article titled “Air India’s cup of woes spilleth over” in Rediff.com on May 5, 2015, it is forewarned that “The Union civil aviation ministry told a parliamentary panel recently that AI could default on repayment of loans taken for aircraft purchase if it did not get the entire expected equity infusion. And, that this could mean a series of delayed payments to oil companies, the Airports Authority of India (AAI) and on repayment of interest on the government-guaranteed debentures.” This is in response to the budget of 2015-16 making a provision of Rs. 2,500 Crores instead of the Rs 4,277 Crores that were demanded.

III. OBJECTIVES OF THE STUDY

- Cross – boundary comparison between two Airline companies.
- To study the reasons behind the downfall of the Aviation Industry in India.

Cross Boundary comparison between two Airlines:

There are three Aviation Industry Companies which have been taken into account in this project : Air India , Virgin Atlantic Airlines and Indigo Airlines . The Company Information or Rather the Company Profile aregive below.

Air India - Company Profile:

- Foundation : It was founded in July , 1930 As TATA Airlines.
- Founder :Mr.JehangirRatanjiDadabhoyTata .
- Commencing of Operations : The Airline came into operation from 1st Of October,1932.
- Company Slogan : Your Place In the Sky.

1) Virgin Atlantic Airlines :

- Foundation : 1984 .
- Founder : Richard Branson.
- Parent Company : Virgin Group .
- Headquarters : The Office , Crawley ,West Sussex , England , Near Gatwick Airport.
- Commencement of operations : 22nd June , 1984.
- Operating Bases : 1) Gatwick Airport .

2) London Heathrow Airport .

3) Manchester Airport.

- Airport Lounges : Virgin Atlantic Clubhouse .
- Chief Executive Officer :Mr. Craig Kreeger .
- Chairman :Mr. Stephen Murphy .

Comparative Analysis between Air India and Virgin Atlantic:

Basis of distinction	Air India	Virgin Atlantic
1) Baggage policies:	Economy fare passengers travelling internationally can expect the following prices for checked baggage: 1st bag: Free 2nd bag: Free 3rd bag: $100 About 19.3% of international airlines allow economy class passengers travelling internationally to check two bags for free. Air India charges $100 for an additional bag, which is about $37.74 lower than the average price for all international airlines.	Economy fare passengers travelling internationally can expect the following prices for checked baggage: 1st bag: Free 2nd bag: $85 3rd bag: $170 Baggage prices are about 80.3% higher than on other international airlines. Compared to the airline industry, checking bags for international travel tends to cost about $3.86 more than on other airlines.
2) Timingsand delays:	About 44% of Air India flights are on time, which is **30.4%** less than the average for all international flights Flights operated by Air India are delayed about 55.6% of the time, which is **30.4%** less than the average for international airlines	About 73% of Virgin Atlantic flights are on time, which is **1.5%** less than the average for all international flights. Flights operated by Virgin Atlantic are delayed about 26.7% of the time, which is **1.5%** less than the average for international
3) Legroom and seat comfort and measurement:	**More Legroom** Passengers on Air India flights have about 2 feet 10 inches of legroom. Compared to other international airlines, Air India flights have about 2.79 Inches of additional legroom. **Slightly Wider Seats** Seats are about 1 foot 6 inches wide, which is slightly wider than the average for all international flights.	**Average Legroom Space** Passengers on Virgin Atlantic flights have about 2 feet 7 inches of legroom, which is about the average for all international flights. **Normal Seat Width** Seats are about 1 foot 5 inches wide, which is the norm for all international flights.
4) Meals offered:	Air India's in-flight meals and beverages service will differ based on your route and fare class. **Special meals** may be offered on flights where complimentary meal service is offered. In general, special meals must be ordered 24 hours before your flights. For more information, visit Air India's website or call the reservation office.	Virgin Atlantic's in-flight meals and beverages service will differ based on your route and fare class. **Special meals** may be offered on flights where complimentary meal service is offered. In general, special meals must be ordered 24 hours before your flights. For more information, visit Virgin Atlantic's website or call the reservation office.
5) Age of fleet:	**Middle Aged Fleet** The average age of planes in the Air India fleet is 9.4 years, which is close to the international airline average of 9.4 years. The age of the Air India fleet is about the same as the average for all airlines in the industry.	**Middle Aged Fleet** The average age of planes in the Virgin Atlantic fleet is 9.7 years, which is close to the international airline average of 9.4 years. The age of the Virgin Atlantic fleet is about the same as the average for all airlines in the industry.

6) Size of fleet:	**Larger Fleet** Air India has a fleet of 104 aircrafts, which is 21 more than the average for all international airlines. Compared to the entire airline industry, the Air India fleet has about 29 more planes than the average	**Typical Fleet Size** Virgin Atlantic has a fleet of 42 aircrafts, which is about average among international airlines. The size of the Virgin Atlantic fleet is on par with the industry average for all airlines.
7) Partners &membership:	Air India is a part of **Star Alliance**. *"As the world's first airline alliance, we work behind the scenes to constantly improve your travel experience. Bringing you benefits to make your journey smoother and more relaxing. Extending our network to fly to new places where you'll do business tomorrow. And creating ways to earn and redeem your miles, including our Star Alliance Upgrade Awards Discover more about what sets us apart from every other airline alliance."* - Star Alliance	Not a part of such any alliance.
8) Infant age and infant stroller policy:	Infant Stroller Policy Infants will be entitled to 1 collapsible troller/carrycot/infant car seat. The maximum weight permissible for a single piece of baggage is 32 kgs.	Under 2 years old. When travelling with children or infants, you're welcome to bring one fully collapsible pushchair and a car seat, in addition to your free checked baggage allowance.

Reasons for the Downfall of the Aviation Industry In India:

Indian aviation industry is a classic example of a industry with immense growth prospects, a sustained growth rate but no profits because of low profit margins that result from anti-market practices, punitive taxation and policy uncertainty. These factors contribute to India being a growing, yet "toxic environment for airlines"

Issues of Indian Aviation Sector:

- **Overestimation of demand:**

It is said that ***'when irrational expectations come in through the door, economic intuition goes out the window'***. Indian aviation industry like many others grossly overestimated India's growth story in 2003. Irrational expectations of demand led to an oversupply of seats which were leveraged beyond what they can control. They simple came into business with *no insurance policy* thinking good times will never end. When Kingfisher went bankrupt, it had in place an order for over 50 aircrafts, which were not justified by the projections of that time.

- **Increased competition and sticky prices:**

Aviation as such is a highly competitive industry. The profit margins in the United States of American have been around 0.2 % for a long time now. Most Indian airlines use fare wars and predatory pricing from time to time to gather market share. Cultural connotations are behind such a policy, not economic intuition as described by Quartz when they wrote,

To top it off, Indians are notorious for demanding cheap prices—and air travel is no exception. When airlines raise prices, passenger numbers drop precipitously**.**

Prices for airlines tickets, just like other commodities are highly sticky in nature, i.e extremely resistant to change, in this case they are sticky up, they can move down really easily but any attempts to bring them up are disastrous for the airline. Most airlines price below their operating costs to gather market share, but are unable to adjust prices back to profitable levels later, because of this age old economic theory of sticky prices. Any attempts to raise prices leads to a sharp fall in demand.

This forces all the other airlines to follow suit because of cutthroat competition. Vistara, the newest entrant to Indian aviation industry is specifically doing away with the policy of cheap discounts because it knows it is harmful to its long term plans.

- **Air India, India's zombie airline:**

Air India was once described as ***"a cancerous cell at the heart of Indian aviation that can infect everyone with its malignancy"*.** Its total accrued losses are over $12 billion, it has not shown profits since 1997 and is continuously bailed out by successive governments with the rational reasons being only some misplaced sense of Nationalpride.

How does Air India negatively affect Indian aviation?

By distorting the market. Air India's losses are continuously underwritten by taxpayer's money. It runs in loss but cuts prices to undercut competitors hence distorting Indian aviation market and preventing proper price discovery. It is almost impossible for smaller airlines to compete with a rival whose losses are constantly underwritten. In this case, even though smaller airlines are winning, they are crowed out by the loss making Air India.

- **Lack of proper aviation policy:**

India does not have a cabinet approved iron clad aviation policy. Most of the key decisions are *ad hoc* and arbitrary in nature which in India generate all sorts of malpractices from favouritism to nepotism. Indian aviation industry has been micromanaged for decades. When Jet Airways was feeling threatened with rising competition, government imposed the 5 year, 20 aircraft rule to protect it, if Air India was feeling threatened, ownership rules were "tweaked" to keep the competition out.

The Ministry of Civil Aviation is weak and its policy decisions are affected by conflict of interest because of the Indian government's active participation in the aviation industry through AI and AAI. If we had a comprehensive aviation policy with clear guidelines on working capital and punitive measures to impose those guidelines, Kingfisher and Spice Jet would have been warned years back.

- **Punitive Taxation:**

Over 50 % of the costs incurred by airlines in India is because of the excessively high rates of taxes on ATF. States that are entitled to apply their own taxes do not reduce them because taxing an organized sector is an easy source of revenue and saves them the trouble of going after small tax offenders.

This tax rate averages a whopping 30 % right now and no state is willing to let go of it. This might improve if the Narendra Modi government does not bow down to the demand of the states to exempt ATF from GST and reduces tax on ATF to 10 to 12 %.

IV. SUMMARY OF FINDINGS AND CONCLUSIONS

- **Current fiscal marked by improved operating performance:**

Current fiscal marked by improved operating performance Air India has delivered a significant improvement in its operational and financial performance in FY13, partly due to improved market dynamics following Kingfisher's exit, but also as a result of a serious and committed approach by the management of Air India, new marketing initiatives and measures adopted to rationalise its network.

- **Deep structural issues remain:**

But despite these improvements deep structural issues remain. As a result, in the five years from FY08 to FY12 inclusive Air India accumulated losses of close to USD5.25 billion, a figure which it is estimated will increase by a further USD950 million or more by the end of FY13.

Of the 189 routes that Air India operates only 12 meet total costs. A further 82 cover their cash costs but not their total costs and 95 routes, or just over half, do not even meet their cash costs. International routes are bleeding particularly badly and account for 80-90% of losses.

- **Piecemeal recapitalisation weakens turnaround efforts:**

The government has committed to fund the carrier's turnaround plan. However rather than infusing capital on a one-time basis, it is drip-fed in over an uncertain schedule. When each small tranche is received it is largely absorbed by overdue vendor and salary payments rather than being utilised to implement turnaround initiatives. As a result the recapitalisation efforts are not providing the strategic stability required.

- **Debt level imposes huge interest burden:**

Air India's bank loans and aircraft related debt total approximately USD9 billion, in addition to which there are vendor-related liabilities e.g. to fuel suppliers and airport operators, in excess of USD1 billion. In fact Air India's debt is approximately twice that of all the other carriers combined.

- **Sub-optimal aircraft utilisation:**

Air India's fleet utilisation is very poor with only around 100 operational aircraft out of a total registered fleet of 127 aircraft (including Air India Express). And even those aircraft in service have daily utilisation rates below the industry average.

- **Recovery hampered by labour productivity:**

The productivity of Air India's bloated workforce continues to be a major challenge. And the airline carries the historical baggage of unresolved issues related to the integration of employees during the merger of Air India and the former Indian Airlines in 2007. The implementation of the recommendations of the Dharmadhikari Committee set-up to look into this issue is likely to face resistance.

The prospect of industrial action is always in the background, especially for licensed staff such as pilots and engineers, which could be triggered by the introduction of proposed wage restructuring initiatives.

- **Fleet issues impose strategic limitations:**

Air India also faces significant current and forward challenges with its fleet structure across its domestic and international operations:

1. The B777-200LR, B747-400 and the A319 aircraft are poorly matched with the mission requirements of its international and domestic routes;
2. The grounding of the B787, which was a cornerstone of the airline's turnaround strategy, is a major setback, especially as there is no clear timeline for the resumption of services;
3. The absence of a long term fleet strategy, with no pending narrow body orders and no long haul aircraft commitments beyond 2015 limits the future business case.

Now with the help of the Graphical representations we can explain the revenue trends and the expenditure trends of both Air India as well as the Virgin Atlantic Airlines:

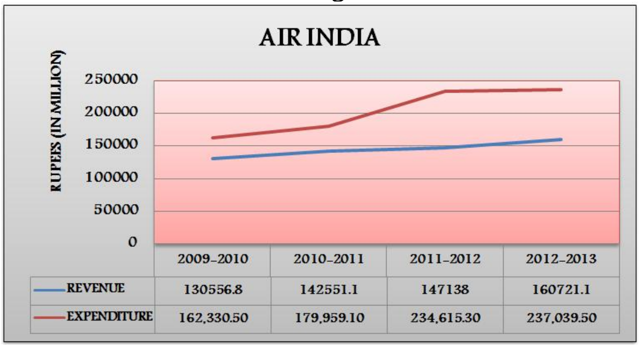

Figure: A graphical representation on Revenue and Expenditure trends of The Air India.

The Figure shows the trend of the increase of revenue along the years. Here we have taken 2009-2010 as the base year and in comparison to that revenue has increased by 11,994.3 millions in 2010-2011 and again with respect to base year revenue has increased to 16,581.20 million in 2011-2012 .Financial year 2012-2013 shows an increase of revenue by 30,164.3 million in comparison to the base year . So far we see that the change in revenue during 2009-2010 to 2010-2011 is a considerable amount but that of 2011-2012 to 2012-2013 outstrips the earlier years.

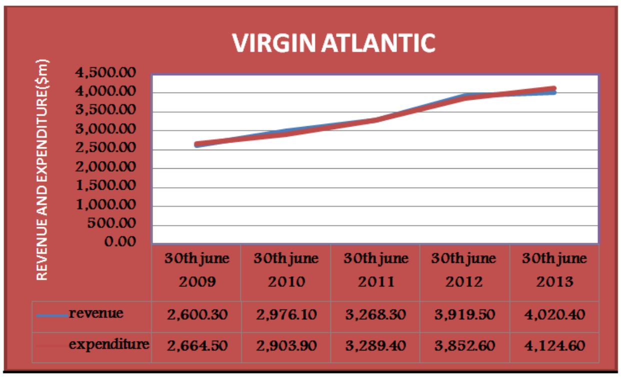

Figure: This figure exhibits the revenue and expenditure of Virgin Atlantic Airlines for timeframe (30th June, 2009 to 30th June, 2013).

This figure exhibits the revenue and the expenditure of Virgin Atlantic Airlines across the time line from 2009 to 2013. Here we have measured time frame along the X-axis and the Revenue and Expenditure along the Y-axis. Revenue shows a continuous increase i.e. if 2009acts as a base year, revenue has increased to 4020.40 million $ in 2013 from 2600.30 in 2009 which is an increment of 1,420.1 million $. We see that except year ended 30th June 2010 and 2012 all the years show expenditure to be greater than Revenue. Expenditures also tend to increase.

V. CONCLUSION

After the NDA came to power in 2014, it followed the UPA's problematic approach by infusing Rs 8 billion in the form of equity into Air India. This is after the budget for 2015-16 had already allocated Rs 25 billion for equity holdings in Air India. The airline had demanded around Rs 1,777 Crores more than the budgeted from the current government. This unexplained cut means that the airline is distressed and might lead to deficit of government guaranteed loans which in turn will lead to compulsory borrowings from banks. If the banks are restricted to lend to the Company that is functioning at a loss of Rs 21.71 Billion, then Air India might have to raise funds from the market at higher cost further putting stress on its already besieged resources. At a time when the Aviation Sector seems on a high, it is demotivating that Air India's prospects to raise capital from the public seems shaky at best. The National Carrier had also approached the FinMin to allow it to raise Rs 10,000 Crore as capital in the form of Tax Free Bonds. The Government turned sour on the proposal and was reluctant to act as a guarantor in such a deal.

At a time when crude oil prices are falling, it is indeed a surprise why Air India seems to be teetering on the brink of oblivion. It seems that all the capital infusion is to go towards covering expenses. Indeed, the expenses are not something to be ignored as the Indian Government itself owes Rs 600 Crores to Air India. To cover these dues, the government has marked a provision of Rs 100 Crore. This, in spite, of the charge of the many foreign travels of the current Prime Minister still in process of being billed.

Air India has approached the FinMin for extension of Government guarantee so that it can raise working capital loans of Rs 2000 Crores till F.Y. 2018. This is after the airline got a sovereign guarantee till March 2016 to raise Rs 300 million through external commercial borrowing. Air India has also requested the government to extend such guarantee till March 2018. All these borrowings are part of Turnaround Plan to ease Air India out of the debt burden of Rs 40,000 Crores. It would be wrong, however to say that such capital infusion has yielded no results. After the implementation of the financial restructuring plan as approved by the UPA in 2012, the operating losses have halved from Rs 5,138.69 Crores in FY 2012 to Rs. 2,171.40 Crores in FY 2015 while net loss has climbed down fromRs. 7,559.74 Crores in FY 2012 to Rs.5, 547.47 Crores in FY 2015.

The need of the hour is that Air India does not only need capital infusion, it needs to be more streamlined and cost effective. As a PSU, it is bogged down by much inefficiency such as over employment and unprofitable decisions. If the government is reluctant to turn over the loss making behemoth to the Private Sector, then it should take steps to ensure that it functions like a Private Carrier. To make it operationally efficient, the Government might have to make unpopular decisions such as cutting down on routes which run empty and relive officials when they are not required. Outwaiting till Air India becomes profitable does not seem the most reasonable approach. With Kingfisher going belly up, the drain on finances is more evident and the Government seems to be caught between a rock and a hard place.