

The Indian Airline Industry: Finance Trends and Strategies

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ABSTRACT

The Airline Industry in India is divided into civil airline industry and military aviation industry. The governance of the civil aviation is done by Ministry of Civil Aviation and governance of military aviation is done by Ministry of Defense. According to International Air Transport Association Indian (IATA) aviation sector has a huge growth in manufacturing, tourism, airline travelers including domestic and international, shipping and other incomes. Thus, civil aviation sector is at the eye of many investors. The research study focuses on the civil aviation sector and its financial management of the industry. The study is using a secondary data collection methodology referring various journals, research studies and the government websites.

Keywords: aviation, finance, strategy, transportation, India

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INTRODUCTION

The airline industry in India is divided into civil airline industry and military aviation industry. The governance of the civil aviation is done by Ministry of Civil Aviation and governance of military aviation is done by Ministry of Defense. According to International Air transport Association Indian (IATA) aviation sector has a huge growth in manufacturing, tourism, airline travelers including domestic and international, shipping and other incomes. Thus, civil aviation sector is at the eye of many investors. The research study focuses on the civil aviation sector and its financial management of the industry. Currently India is at ninth position in in civil aviation market in World. India aims to become the third largest aviation market by 2020 [1].

The civil aviation industry is trying to expand in a way such as low-cost carriers

(LCC), new technology inventions like IT, Foreign Direct Investment (FDI) in domestic airlines, more advanced airports and connectivity. India has a market size of around US \$ 16 billion.

In the year 2013 total passenger traffic was 163.06 million. Out of that domestic passenger traffic CAGR-7.71% (FY 2006–13), international passenger traffic CAGR-8.96 for year 2006–2013, total freight traffic CAGR 5.2% for year 2006–2013. More than 85 international airlines operate in India. 5 Indian airlines connect to 40 countries in world [1].

For the basic understanding the Figure 1 can be referred. The civil aviation industry is divided broadly into four types namely domestic airline operated within India and selected international locations, international airlines, chartered air operations and cargo service providers.

The domestic airline is following divided into full service carriers and low-cost carriers.

LITERATURE REVIEW

1. The research study is an analysis of domestic airlines operations giving an overview of barriers, development and changes needs to be done in operations and other related functions. The research is based on secondary data basically collected from internet. The research has found out 4. Basic parameters where changes need to be done.

1.Rational model: the Indian airline sector follow European model, but Indian market is different than European.

2. Close to the customer: Service, quality, reliability are strategies aimed at loyalty and long-term revenue stream growth. Service Obsession, quality obsession, niche man ship and listening to users is very important.

3 Autonomy and entrepreneurship: the airline faces losses mostly due to innovation, so they should focus on keeping a watch on innovation, intense communication, tolerance failure, productivity through people.

4. Hands on and value driven: basic philosophy, spirit, and drive of an organization have far more to do with its relative achievements than do

technological or economic resources, organizational structure, innovation, and timing.

William Gibson (2005) explores the practice of the airline finance evaluation [2]. The research study is about capital budgeting concept and investment decisions. The author has taken not only commercial but also government aircraft like fighter plane. The author states that the buying of government aircraft decisions is not done strategically considering the cost factor rigorously. And huge amount of airline equity remains in the hands of government. The most common method for airline finance evaluation remains direct operating cost which reflects a profit and loss approach including depreciation. But the factor of time value of money is absent in this method. The study discuss about all the methods and its implications on the evaluation. The conclusion was that the NPV Net present Value method that we use has more flexibility than the traditional way; we can extend it to adjusted present value taking lease versus purchase decisions. Another method was given is equity NPV considering the shareholders valuation. The author says APV (Adjusted present value) method is best suitable in today world scenario.

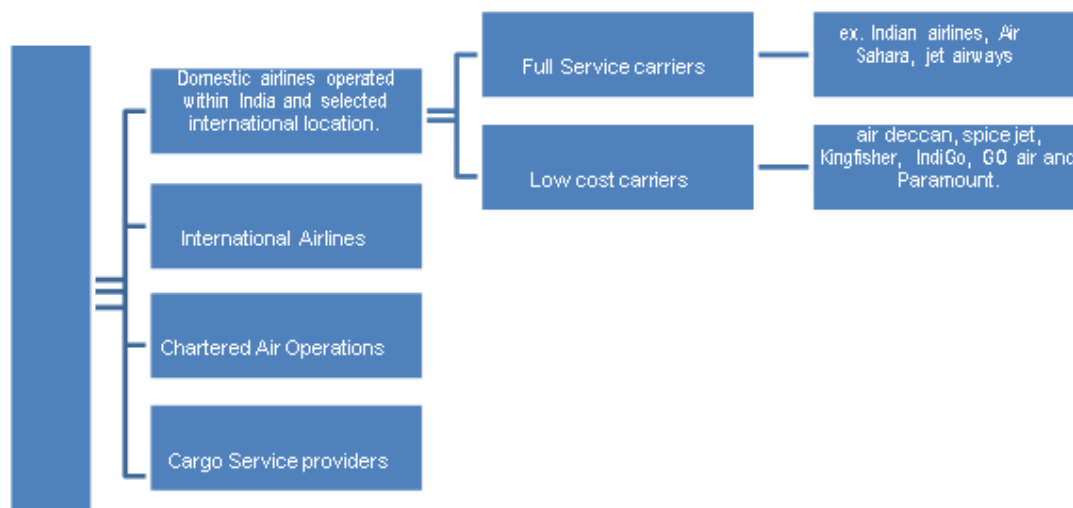


Fig 1 Overview of Airline industry.

Britta Berghö(2013)has written a case about the whole Indian airline industry consider all factors in airline business. There was 19% hike in ATF in May 2008 and with this price the airline prices increased roughly doubled in a year and tripled in three years. Starting with the history of airline the author gave an insight about the monopoly era of Air India and Indian Airline till 1992 then the new economic policies introduced the airline sector and there started the opening of airline sector [3].

This change caused the airline sector to get new business and strategies as well. Emergence of low cost airline and its impact was discussed thoroughly by the author. The methodology of a research study was analysis of general scenario without using any specified objective. The barriers to the industry was stated as Airport landing and navigation charges at Indian airports were 50% higher than international benchmarks and among the highest in the world without getting the superior infrastructure. This resulted in the flight delay, poor service, consumption of more fuel and increasing the operational cost.

Goutam Dutta and Sumitro Santra (2015) analyses the price movement of air fare prices of Indian domestic airline [4]. The sample for the research is taken as 5 domestic airlines. Data collection was in two parts, one minimum fair airline data for five airlines from origin cities and second airfare data from 69 domestic routes across India. The author analyzed the data and given using price movement analysis model and second analysis is weekend effect on pricing strategy.

Objective

- [1] To identify financial management trends in Indian Airline industry.
- [2] To find out key strategies used in Indian Airline industry.

RESEARCH METHODOLOGY

This study is based on existing literature on aviation sector and financial studies in this area. The methodology adapted is secondary data collection method. The various published reports and journals dealing with this issue have been reviewed and examined to get the idea on the various aspects of the research.

Finance Trends in Airline

One trend in cost management in Airline is it Is divided into two parts: operational and non- operational cost. The operating cost includes direct and indirect costs. For example, the cost of flight, type of aircraft, crew and fuel cost. The other costs are maintenance and depreciation of aircraft.

Other operating expenses are staff and their salaries, inflight services and passenger expenses, landing, parking and route expenses that the airline company must pay to the airport. Operating lease of an aircraft is also one of the costs as well as the cost associated with hedging is another cost.

Airline earns through passenger ticket charges, cargo services, catering in flight, recoveries and other services. Also, there are huge amount of taxes the airline company must pay to the government one major is airline turbine fuel ATF which has highest cost. It is said that the half of the operating coast is actually because of fuel prices.

The growth of aircraft operating lease has increased due to which the financial trend has also changed. The airline which own the aircraft the depreciation is treated as operating cost and interest on any related finance is not. But when the company lease an aircraft both depreciation and interest(rental) is combined as an operating cost. Another trend is change in depreciation policy will change in the operating profit also. Agents' commission

is generally recorded as an expense.

Airline financial ratios can be categorized into following categories:

- Performance/earnings
- Risk
- Liquidity
- Market valuation

The performance ratios include operating ratios which gives an indication of management efficiency in controlling cost and increasing revenue. Net profit margin ratio shows the average of profitability. Return on invested capital this shows that how the company is successful in terms of the investments especially the long-term investments. Return on equity this ratio gives an idea of how company is using the capital.

A risk and solvency ratio show the ability of airlines to meet the interest payments on its debt. Debt equity ratio is another measure for risk of an airline company.

Liquidity ratios in which calculate the current ratio the ration value 1 is considered that the industry is sound. Second ratio is acid test or quick ratio.

Stock market ratio dividend per share is the measure of market performance of the company.

The major factors for underperformance for financial crises are: high fuel prices, tough competition of price between the low-cost carrier and the full-service carriers, the infrastructure unavailability due to which delay in flight and increased operational cost is there. The airline also must face local and government tax for airport utilization and do not get best infrastructure.

Hence increases the fixed cost of the company.

Issues found in airline sector:

- Shrinking profitability of airlines.
- The new ground handling policy.
- High Aviation Turbine Fuel (ATF) prices
- High airport charges
- Shortage of technical manpower
- Safety and security
- Land acquisition
- Closure of old airports

There are various strategies suggested by the researchers in literature review as strategic alliance, higher aircraft utilization, manufacturing practices, such as the adoption of concurrent engineering, kaizen and computer-aided design, operational hedging strategies which are general strategy but having indirect linkages to the financial performance of the sector.

The airline faces losses due technological innovation as airline must buy latest techniques for safety purpose which increases the investment cost.

The financial strategies found in research were reduce operating costs, financial hedging strategies, a risk management strategy LCC, pricing, sale-and leaseback transactions, form bailout to government, cost management etc. [5].

CONCLUSION:

The conclusion in the study was that the industry was in serious trouble and growth has dropped to 20%. The research studies were included from all over the world so in case of Indian airline sector all the aspects stated above was not studied. Many research studies have stated the crises faced by airline companies and how they have gone into financial losses. The charges of airport are the second highest among the Asian and gulf countries. At present other than Mumbai and Delhi the other airports are unable to provide complete gateway facilities and procedures for transshipment, imports and exports. There are some airlines which are making

profit in India. There was very less information was available regarding how these airlines are making the profit with the same policies and same economic conditions. Hence, the research needs to be done in this area.

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