

## TURBULENT TIMES IN THE INDIAN AVIATION SECTOR: CASE OF JET AIRWAYS

\*Dr. Aakanksha Uppal

### Abstract

This research paper studies on the structure, issues and challenges of Indian aviation industry and impact on economic growth. The milestones and major issues faced by the companies in Indian aviation industry are discussed. The monopoly of public sector may have ended, after entry of private players in the airline industry, but the industry growth is restricted by tax structure, lack of infrastructure, cartel formation by public sector oil companies, lack of vision by the government, poor regulation and management issues of companies.

**Keywords:** Indian Aviation, Jet Airways.

### Introduction

#### Company Perspectives

Jet airways are the most opted domestic airline in India. It is the first carrier option public generally prefer because of it set standards. They achieve this position in the market by offering a very high quality of service and its efficient operations. Jet Airways (India) Limited (JAIL) was started in 1st April of the year 1992 as a private company with limited liability. It started its operations as an Air Taxi Operator in 5th May 1993 with four leased Boeing 737 aircraft. The Company was granted the scheduled airline status in 14th January 1995. Jet Airways became a deemed public company in 1st July 1996. The Company got the prestigious Air Transport World Award 2001 for Market Development and the TTG Travel Award 2002 for Best Domestic Airline. Jet Airways (India) Private Limited is India's leading private airline which boasts a market share of about 45 percent. The Airline's reputation for punctuality and outstanding service attracts a large number of business travelers. Jet Airlines founder and chairman is Naresh Goyal an Indian expatriate who is living in London.

#### Review of Literature

Anuradha Yadav et al., (2017) There are few factors such as entry of Low costs carriers (LLC), modern airports, vision of the new government regarding tourism and transportation, foreign direct investments, cutting edge technology, and vision of regional connectivity are driving the industry towards transformation. Industry has faced many challenges and still it is going on. Many new players are entering into this market. Policy change such as 49 percent investment through foreign direct investment (FDI) is changing the face of the industry. From the analyst point of view though this market is facing lot of issues and challenges it is growing at the rate of 18 percent per year. Many factors are contributing to this growth such as increase in disposable income of the population, industrial growth in the country or change in government policies such as FDI. From this perspective Indian market is lucrative. Since few years most of the Indian population is moving from lower middleclass to upper middleclass. They are gaining capability to spend and upgrade their lifestyle. This is providing opportunity for low cost players to tap the market share. Indian Aviation Industry research and analysis is a huge topic to

study. Indian aviation market is very competitive. Various players are struggling to fetch the profit. Most of them are facing various problems. There are issues with operations, government policies, taxation and huge investment to be brought in to start the business.

Shipra Choudhary et al., (2018) The paper highlights the issues and challenges of Indian aviation industry. The milestones and major issues faced by the companies in Indian aviation industry are discussed. The monopoly of public sector may have ended, after entry of private players in the airline industry, but the industry growth is restricted by tax structure, lack of infrastructure, cartel formation by public sector oil companies, lack of vision by the government, poor regulation and management issues of companies. The paper concludes by providing some suggestions.

Payal Mehra et al.,(2018) Jet Airways: Background Jet Airways (India) Private Limited was a reputed private airline in India with an average fleet age of 4.45 years. Jet flew to 63 destinations spanning the length and breadth of India and beyond, including New York (both JFK). The Airline carried 1.28 million passengers out of 4.08 million passengers carried by the whole airlines industry. It enjoyed a reputation for punctuality and outstanding service and consequently attracted a large proportion of business travelers. Currently it operates a fleet of 97 aircrafts, which includes 12 Airbus 330-200; 20 ATR 72-500 aircraft; 11 Boeing 737-700; 42 Boeing 737-800; 2 Boeing 737-900 and 10 Boeing 777-300 ER. The management had ambitious plans to develop its own maintenance hangars and pilot training centers Jet Airways: Origins Recipient of several business and leadership awards, Company founder Naresh Goyal completed his graduation in Commerce in 1967 and joined the travel business at the age of 18 as a general sales agent (GSA) for the Lebanese International Airlines. From 1967 to 1974 he learnt the intricacies of the travel business through his association with several foreign airlines.

K A Bharat et al.(2017) A comparison of financial performance is based on Growth, Challenges and Service quality of company. After LPG regulation, the Indian government has taken free sky policy to lead and compete with International Airlines. Indian, formerly Indian Airlines (Indian Airlines Limited from 1993 and Indian Airlines Corporation from 1953 to 1993) was a major Indian airline based in Delhi and focused primarily on domestic routes, along with several international services to neighboring countries in Asia. It was state-owned, and was administered by the Ministry of Civil Aviation. It was one of the two flag carriers of India, the other being Air India. The airline

officially merged into Air India on 27 February 2011. The study focuses on major three Indian Airline growth and Challenges. The study is based on Ratio analysis and ANOVA for testing of hypothesis. Finally study helps to find, the overall better performer of Airline company in India with respect to growth and financial performance.

### **Three Consecutive Quarterly Losses**

Jet Airways' net worth turned negative in March 2018 after it reported a quarterly loss for the first time in eleven quarters. The jet airline suffered three back-to-back quarterly losses which started from January-March quarter with a massive loss of Rs 1,045 crore; then in the second April-June quarter has a loss of Rs 1,323 crore. However trouble becomes deeper in the July-September quarter when there was a loss of 1297 crore. Jet Airways reported losses for the third quarter as higher crude prices, a weaker rupee and competitive tariffs continued to hurt the airline. There was a time when that airline does not have capital to operate more than 60 days. The company's auditors said the financial statement was prepared on a "going concern basis" as they expect various initiatives – from cutting costs to enhancing ancillary revenues – to improve its operating performance.

"The appropriateness of assumption of going concern is dependent upon realisation of the various initiatives undertaken by the Company and/or the Company's ability to raise requisite finance or generate cash flows in future to meet its obligations, including financial support to its subsidiary companies," according to the Independent Auditor's Report attached with the financial results.

### **Liabilities Jump**

Earnings before interest, tax, depreciation and amortisation and rental cost, which is a key profitability indicator for an airline, was negative Rs 346 crore due to higher foreign exchange losses, maintenance costs and fuel expenses.

Due to continued losses, Jet's total liabilities rise to 18 percent. These include long- and short-term borrowings, trade payables and other financial obligations.

### **Reasons behind these Losses Aviation Turbine Fuel Burden**

Due to the rising price of aviation turbine fuel globally the jet airline face great loss during the period of June to September 2018. However this increasing cost was not transferred to the travellers. This increases the operational cost of the airlines.

## Low-cost Model

In India most of the domestic airlines follow low cost model which is one of the biggest factor behind rise in operational cost in the aviation sector. This strategy revolves around offering heavy discount on flight tickets to attract passengers. It a strategy which is based on volume based sales. Each airline is looking to snatch the customer at the cost of offering tickets at cheap prices. Jet Airways is one of those players which has been extremely hurt by this model besides the other airlines such as IndiGo and SpiceJet.

Many specialists have criticized this model and stated that this is the reason behind the slump in the airline Industry.

## Reduced Operations

Jet Airways is expected stop flight operations to Gulf routes due to its badly-hit finances. The airline may further streamline operations to boost operational profits.

## Non-payment of Staff Salary

The airline has even failed to pay salary to several members of their staff, including senior pilots and even external vendors. It had to cancel 14 flights in a single day after some pilots called in sick over non-payment of remuneration.

## Conclusion

In October 2008, Jet Airways (India) Limited (Jet), one of India's leading domestic airlines, decided to lay off more than 1,000 employees to streamline its operations.<sup>5</sup> The retrenchment was the second phase of its trimming operations. The first phase, which took place a day earlier, saw the airline showing the door to 850 cabin crew members<sup>6</sup>. The second phase of retrenchment included employees from all operations - cabin crew, pilots, ground staff, airport services staff, and employees from management departments. The sudden decision not only took the employees by surprise but also caused alarm in the Indian aviation sector. Amidst great furor and opposition by various organizations and political parties, Naresh Goyal (Goyal), chairman of Jet, reinstated the employees a day later amidst great emotional drama. He was quoted as saying he had been appalled by the retrenchments of his employees, which he claimed, he had come to know only through media reports.

According to the company, Jet paid the utmost importance to the composition of its senior management and its human resources with emphasis on teamwork as a key success factor. Being in the service-based industry, Jet gave priority to high quality, professional service to its customers. Indian aviation industry is among the

top 9th aviation industries of the world. It has shown high growth trajectory with a size of around US\$ 16 billion and is poised to be the 3rd biggest by 2020. India aviation industry promises huge growth potential due to large and growing middle class population, rapid economic growth, higher disposable incomes, rising aspirations of the middle class and overall low penetration levels.

Problems facing the aviation sector -

- High operational costs
- High cost of aviation turbine fuel
- High service tax and other charges
- Shortage of maintenance facilities
- Competition from foreign airlines
- Congestion at airports
- Lack of qualified pilots and technical manpower etc.

Also in 2014 the industry has saw entry of five new players. These new players are -

1. JET Etihad deal has been finalized (FDI)
2. Tata-Singapore airlines Ltd
3. Air Costa (Part of LEPL Group)
4. Tata-Air Asia Ltd
5. Air Pegasus Ltd

These are the five new players in the industry. They have different strategies to tackle the market. Players in Indian Aviation Industry are fighting to gain maximum market share. Domestic market is dominated by LLCs such as IndiGo and SpiceJet. IndiGo is the only domestic company which has shown all time profits in its balance sheet. At the time of crisis Indigo sustained itself while gaining profits. It is India's most preferred LLC.

So there is a large untapped potential for growth in the industry as well. It is necessary for the stakeholders to engage and collaborate with the policymakers to implement efficient and rational decisions that will shape the future of the aviation industry. With the right policies and a continued focus on cost, quality and passenger interests, India would definitely be able to realize its vision of becoming the third largest aviation market by 2020.

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