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Taking your airline to new heights

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IndiGo, one of the newest low-cost carriers in India, is set to take advantage of the increasingly liberalized air transport market.

Later this year, the skies over India will become even more blue. IndiGo, a new low-cost Indian domestic airline launched by InterGlobe Enterprises, created a stir in the industry by ordering 100 Airbus A320 aircraft, the largest single order in India's aviation history.

"The aviation industry in India is on the threshold of the next big revolution, and IndiGo is ideally positioned to fill the fast emerging need for reliable, efficient and economical air travel," said Rahul Bhatia, managing director of InterGlobe Enterprises and co-owner of the airline. "IndiGo will also make a humble yet significant contribution to India's growth by creating employment opportunities directly and through ancillary services."

The launch of IndiGo reflects the country's burgeoning air transportation industry. Government liberalization has led to a rapid increase in the number of airlines serving the nation. Since 2004, seven new carriers have announced their launch, challenging the two

state-owned carriers that previously dominated the market.

Business in other industries, seeing the potential of India's aviation market, have launched airlines, including a brewery (Kingfisher Airlines), a textile company (GoAir) and helicopter charters (Air Deccan).

InterGlobe Enterprises — the foremost travel conglomerate in India, offering airline and aviation management, travel-related services, travel technology, travel distribution services and hotel development and management services — is also looking to capitalize on the aviation sector with IndiGo.

InterGlobe Enterprises partnered with Rakesh Gangwal, an experienced aviation executive with more than 20 years in senior management positions at United Airlines, Air France and US Airways. Bhatia and Gangwal, CEO of WorldSpan, own a combined 20 percent of the airline. Their initial US\$80 million stake is set to increase to US\$250 million by

2008. The remaining amount of the airline's equity is held by financial institutions.

"The 21st century belongs to India," Gangwal said. "We feel privileged at the prospect of contributing to the growth of India's aviation sector. IndiGo will serve the nation's air travelers with superior customer service and provide great value for the money."

The start-up carrier has one of the best-financed launches in aviation history with an initial funding of 3.5 billion to 4 billion rupees (US\$79 million to US\$90 million). The airline has also added an executive team with vast airline experience, including Chief Executive Officer Bruce Ashby, Chief Operating Officer Steven Harfst and Chief Financial Officer Riyaz Peermohammed.

"IndiGo has a strong business plan to operate in one of the fastest-growing aviation markets in the world," said Ashby, a 20-year airline industry veteran including stints at US Airways, Delta Air Lines and United Airlines.



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■ By Ramesh Premkumar | *Ascend Contributor*

HIGHLIGHT

IndiGo's launch is expected to bring down average fares and increase frequency between key cities, and travelers are expected to benefit the most.

"This is a once-in-a-lifetime opportunity to come in at the ground level as the CEO to guide the airline initiative from one of the most professional aviation groups, InterGlobe."

In April 2005, the start-up airline received its No Objection Certificate from the Indian government to launch scheduled services. In July 2005, the airline placed its blockbuster aircraft order, worth US\$6 billion at list prices, and will take delivery of eight aircraft by the end of the year, nine more next year and one every month thereafter.

IndiGo's Business Model

The airline plans to adopt a low-cost carrier model, with fares expected to be competitive with those of other low-fares airlines such as Air Deccan. The fares are expected to be 40 percent lower than those of full-service carriers.

IndiGo will operate as domestic specialist on category A routes (between metro cities) and on category B (between metro and second-tier cities) routes. Indian regulations mandate that a carrier operate for five years before serving international routes.

IndiGo's Biggest Challenges

Despite its advantages, IndiGo faces several issues it must overcome:

- Shortage of skilled resources (pilots, flight attendants, ground crew) — Shortage of skilled resources is seen as the single-largest threat to Indian carriers, especially new entrants. Indian carriers have had to offer double and triple compensation packages to attract talent. It has also resorted to hiring foreign professionals at a premium.

- Oil prices — Indian carriers have experienced a drastic decrease in their profitability margins due to high fuel costs, which are expected to present a significant challenge to IndiGo.

- Lack of airport infrastructure to support the rapid growth of air travel — Many of India's main cities lack the airport facilities to support the current levels of traffic, much less the increases in travel marked by low-cost entrants.

- Natural calamities (fog, floods, storms) — 2005 was a challenging year to India's airlines due to unexpected severe rain, floods and fog. India's Director General of Civil Aviation (equivalent of the U.S. Department of Transportation) has issued new stringent regulations mandating that pilots for India's carriers who are not trained to handle fog conditions will not be allowed to land at the nation's second-busiest airport, Delhi.

Indigo's Key Differentiator

Aviation industry watchers believe IndiGo's biggest advantage will be its size. With 100 aircraft, it will be able to serve all airports in the country with multiple connections. With its substantial start-up financing, the airline will be able to grow rapidly and connect the lucrative metro routes with flights every half hour, something that will take traffic away from existing operators.

Another key benefit comes from InterGlobe's expertise in handling ticketing and inventory management for other airlines.

Travelers, aviation experts and competitors are watching IndiGo closely. IndiGo's launch is expected to bring down average fares and increase frequency between key cities, and travelers are expected to benefit the most.

As a result of Jet Airways' US\$500 million buyout of Air Sahara in January, IndiGo, Kingfisher Airlines, GoAir and Air Deccan announced an agreement to share engineering resources, equipment, technical manpower and training requirements to cut costs of operations (all four carriers fly Airbus aircraft). In addition, the four-member league is expected to transfer passengers between each other's flights on an agreed flat fare in case of disruptions or over bookings.

Significantly, the airlines agreed not to poach licensed manpower from each other, subject to sharing technical manpower and training instructors. They are expected to establish a common compensation package for all licensed expatriates.

It is a dynamic time in the India marketplace marked by the launch of new entrants such as IndiGo. With its capitalization and large aircraft order and low-cost business model, the blue skies promise to take on the shade of IndiGo. ■

Ramesh Premkumar is an India-based regional director for the Sabre Airline Solutions business. He can be contacted at ramesh.premkumar@sabre.com.