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Taking your airline to new heights

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Seeking Gold

Relaxed government regulations have opened countless opportunities for India's air transport industry.

■ By Lynne Clark | *Ascend Staff*

There is a gold rush in the skies over India. And it seems that every venture capitalist in the world with the requisite 444 million rupees (US\$10 million) to launch a private airline wants to stake a claim. India's new breed of aviation entrepreneurs represents businesses from breweries, distilleries and public relations companies to textile conglomerates and billionaire families.

Many are motivated by the prospects of money and glamour associated with airlines. Many want to change the aviation world similar to the way Southwest Airlines' Herb Kelleher and Ryanair's Tony Ryan have done. All see gold on the Indian aviation horizon.





The Sunrise Sector

India is the world's second most emerging aviation market after China.

"The country, which just 10 years ago had a total operating fleet of 150 aircraft or less, suddenly led the order book at the Paris Air show in 2005 with 190 new aircraft orders," said Vijay Bathija, senior principal with the consulting practice for the *Sabre Airline Solutions*® business.

Fueling the orders is a perfect storm of opportunity created by the simultaneous relaxing of government policies on foreign equity ownership, new open-skies policies, rising income levels among a growing Indian middle class and an unexploited potential in India's tourism.

"I didn't need a McKinsey [& Company consultant] to tell me there's a market here,"

said Capt. G R Gopinath, managing director of Air Deccan. "What we are witnessing today is the birth of a new industry. Aviation is no longer a taboo, and it is now becoming an integral part of the country's economic development."

Open-Skies Policies

Perhaps agreeing with Capt. Gopinath and other industry observers, the Indian government last September implemented aggressive policy changes and bilateral air service agreements with more than 15 nations including the United States and the United Kingdom, almost instantly increasing the number of flights into and out of India.

Soon after, the government cleared an almost 14-year request by the two state-owned airlines, Air India and Indian Airlines,

to expand their fleets. In October, the government raised the foreign investment limit in the local aviation sector from 40 percent to 49 percent, and non-resident Indian investment up to 100 percent is now permissible in domestic airlines without government approval. However, the government policy bars foreign airlines from taking a stake in a domestic airline.

During the past 12 months, India has signed a number of open-skies agreements, signaling its readiness to modernize aviation policies. Already, the Indian government's new openness is showing results, including:

- Bilateral pacts with Sri Lanka and Singapore;
- Granting multiple-carrier status to Indian aircraft by three Association of Southeast Asian nation countries — Singapore, Malaysia and Thailand;

- Allowing low-cost airlines from these ASEAN countries to enter India;
- Permitting private Indian airlines with five years of flying experience to fly to all global destinations except the Gulf. Until now, private local airlines were only allowed to operate within the country.

Key Players

Clearing skies have cleared runways for more planes in India. State-owned and private airlines are vigorously expanding their fleets, and foreign players are rushing in to stake their claim in the Indian aviation goldmine.

Currently, liveries from 19 carriers cross the skies over India. With the exception of Air India and Indian Airlines, newcomers are all privately held.

With its recent acquisition of Air Sahara, Jet Airways has emerged as one of the strongest and largest domestic carriers in the country, with nearly 50 percent domestic share.

"Jet Airways just recently started international service," Bathija said. "While it is still losing money in the international circuit, it is well-positioned for the future. Scale matters, and Jet Airways is the largest private carrier with rights to international destinations and a strong domestic network."

Among low-cost carriers, Air Deccan remains the leader. The country's first "no-frills" airline is a business unit of Deccan Aviation Private Limited, India's largest private helicopter company.

"We were already successfully into the business of chartered flights where we got a lot of calls from people wanting to go to destinations that were unconnected," said founder Capt. Gopinath, a former captain in the Indian Air Force. "This started the initial thought process. Our country is vast, the infrastructure is poor, air connectivity is bad; all these factors were considered. I realized that if anybody needed low-frill aircraft, it was India."

Combining Southwest Airlines and Ryanair business models, Air Deccan began operations in August 2003 with one aircraft and one regularly scheduled flight a day from Bangalore, India, to Mangalore and Hubli, India. Today, it connects 44 cities with 180 flights to destinations throughout India.

The cornerstone of Air Deccan's aggressive growth is rock-bottom fares to attract railway passengers to upgrade to air travel. During the past few years, the carrier has offered

Beyond the Core Business

Airline	Owner	Business
Air Deccan	Captain G R Gopinath	Helicopter charters
Kingfisher Airlines	UB Group	Breweries/distilleries
IndiGo	InterGlobe Enterprises	Global travel technology
SpiceJet	Royal Holding Services	Royal Airways/Kusagra family
GoAir	Bloomberg Dyeing	Textiles

Some of India's carriers are capitalized by successful businesses in other industries. The financial strength, powerful leadership and well-known brands of these companies provide the initial stability many start-up airlines lack.

special promotional fares at virtually half the price of a railway ticket to many destinations.

Air Deccan's phenomenal growth spurred the entry of nearly a dozen low-cost carriers in India, and it faces stiff competition from Kingfisher Airlines, SpiceJet and GoAir.

"The new challenger on the scene is the colorful Kingfisher Airlines," said Bathija. "Modeled on the international Virgin Atlantic, it is growing rapidly and has achieved almost 6 percent of the domestic market share within a few months of operation."

Kingfisher Airlines is a wholly owned subsidiary of United Breweries Holdings Limited, the UB Group's investments holding company. The UB Group is one of India's largest companies with revenues of 87 billion rupees (US\$2 billion) and is the largest Indian manufacturer of beer and liquor. Based in Bangalore, Kingfisher Airlines is India's first and only private airline to receive the prestigious "New Airline of the Year" award in 2005 for Asia/Pacific and the Middle East from the Centre for Asia Pacific Aviation within six months of commencing operations.

Who will Survive?


With many of the nation's newcomers in the start-up phase, it's too early to predict who the survivors will be.

"This is the second round of aviation liberalization in India," Bathija said. "In the early 1990s, private carriers started services as air-

taxi operators and later converted to scheduled operators. However, due to either the restrictive route policies or level of funding, many carriers folded. This time, the market is much more enthusiastic, and the operating environment is much less restrictive. The chance of success for many carriers is much greater this time around."

Of course, the success of newcomers and established carriers depends on whether the Indian government follows through on promises to further liberalize the aviation market and improve the quality of airport infrastructure. (See related article on page 40.)

"Infrastructure is a major concern," said Bathija. "While plans are being developed to upgrade facilities or lay ground work for new airports, the lead time for these plans to come to fruition is very long. The good news is that the government realizes that capital is required and is moving fast to privatize major airports."

"A skilled labor shortage, particularly for cockpit crew, is also a challenge carriers must face," Bathija continued. "Kingfisher Airlines is opening its own pilot training academy. So while there will be some growing pains, I am confident that growth will continue. There will be consolidation successes and failures. However, I expect the total supply of seats to continue growing and demand to keep pace." 

Lynne Clark can be contacted at wearelistening@sabre.com.