Infographics by V. Srinivasan

Source: CAPA India, IOC; Oil PSUs

Flying into the red

The Indian aviation sector is beset by problems of cut-throat competition, high operational costs, and huge losses.

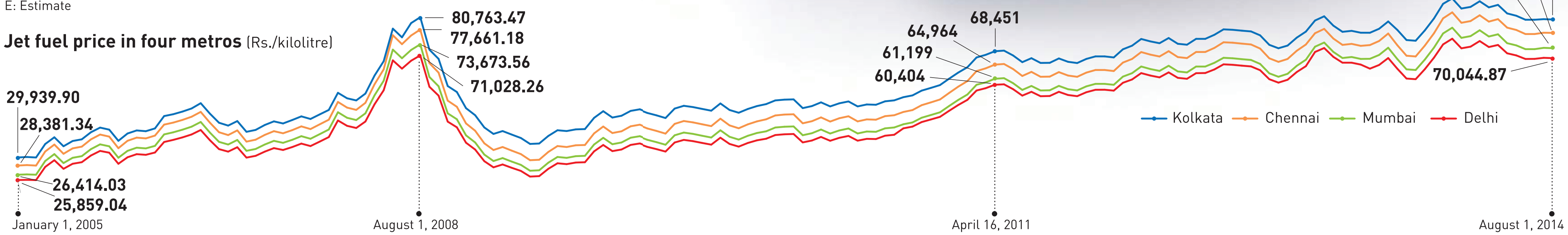
BY **R.K. RADHAKRISHNAN**

Revenue and profitability of Indian air carriers

Financial Year	2008	2009	2010	2011	2012	2013	2014E
Total revenue (Rs. crore)	32,710	37,670	37,270	44,590	49,630	53,970	60,000
Net profit/**loss** (Rs. crore)	**4,650**	**9,070**	**7,100**	**7,200**	**12,630**	**10,090**	**8,620**
Profit/**loss** per pass. (Rs.)	**869**	**1,832**	**1,247**	**1,076**	**1,677**	**1,411**	**1,134**

E: Estimate

Jet fuel price in four metros (Rs./kilolitre)



Taxes on domestic aviation turbine fuel as on August 1, 2014 (in per cent)

State/UT tax category rate Delhi NCR VAT **20** | Tamil Nadu VAT **29** | Bihar VAT **29** | BMC and Pune VAT **25** Rest of Maharashtra VAT **5** | Karnataka sales tax **28** | Gujarat VAT **30**

Kerala sales tax **25** Addl tax on S.T. **15** Social security cess on S.T. and addl. tax on S.T. **1** | W. Bengal sales tax **25** | Chhattisgarh VAT **25** | Uttar Pradesh VAT **21**

States with lowest tax rates Himachal Pradesh VAT **1** | Odisha entry tax **2** VAT **5** | Jharkhand VAT **4** | Madhya Pradesh entry tax **1** VAT **4** | Puducherry VAT **5**

Sir Richard Branson, founder of the Virgin Group, jokes on how to become a millionaire: "Start out as a billionaire and then go into the airline business." Ironically, this became true in the case of UB group chairman Vijay Mallya, who launched Kingfisher Airlines in 2005.

The airline reported losses in each year of its operation. The fiercely competitive environment, the high cost of operations, a weak rupee, high interest payments and bad management decisions saw Kingfisher flounder, after buying out the low-cost carrier (LCC) Air Deccan in 2007. Kingfisher was forced to quit the LCC segment in 2011.

By early 2012, it had accumulated losses of over Rs.7,000 crore. In October 2012, the airline ceased operations, and by February 2013, its licence was revoked. In July 2014, Kingfisher was declared the country's biggest non-performing asset by a consortium of public sector banks.

Calculations based on the losses incurred by airlines operating in India indicate that every time a passenger boards a domestic flight in India, the airline loses $22. While the combined losses of the Indian carriers in the past seven years amounted to Rs.59,400 crore ($9.8 billion), the accumulated debt and liabilities jumped to $16 billion, estimates the Centre for Asia Pacific Aviation (CAPA) India. In 2014, the losses are expected to add up to $1.5 billion.

But this has not affected the ability of the Indian carriers to offer discounts. Air India, Jet Airways, IndiGo, GoAir, SpiceJet, and AirAsia India have all joined the fray in a bid to jack up market share.

Part of the reason for the new price war is AirAsia India, which commenced operations in a jiffy on June 12. Six more firms have received licences to commence operations, and the price war will consume at least a few in the competition.

Analysts say that it is high time the government intervened and helped the sector that contributes 1.5 per cent of the country's gross domestic product and 1.8 per cent of the jobs. The average sales tax on aviation turbine fuel (ATF) in India is the second highest in the world at 24 per cent (in Bangladesh, it is 27 per cent). Of the total operation cost of an airline, fuel costs account for close to 50 per cent.

While IndiGo and GoAir are in the black, Air India, SpiceJet and Jet Airways are in the red. Jet targets a return to profits by 2017. SpiceJet officials have stated that it is not yet time to write the airline off. Air India received a Rs.30,000-crore capital infusion from the government.

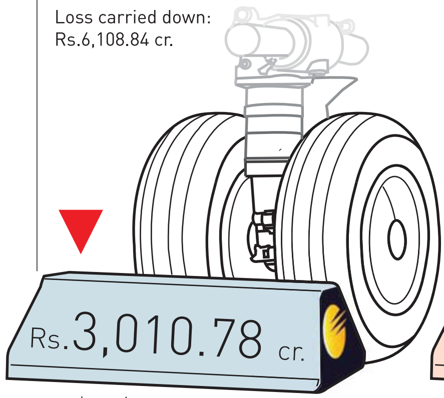
Giovanni Bisignani, Director General and CEO of the International Air Transport Association (IATA), identified three priority areas—reducing costs, improving infrastructure and adopting global standards—in order to make the sector profitable.

Low-cost carriers SpiceJet, Indigo and GoAir have 65% of the market share and a load capacity of 85%

Fleet strength and financials

Jet Airways – 102 aircraft

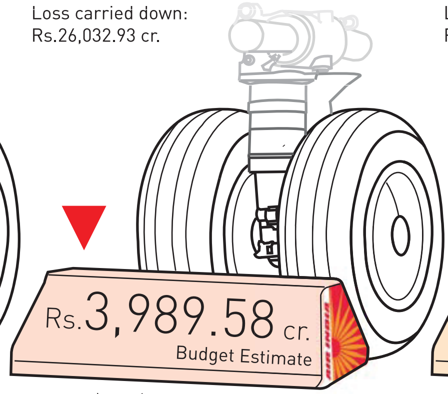
Loss carried down: Rs.6,108.84 cr.



Loss (March 2014)

Air India* – 122 aircraft

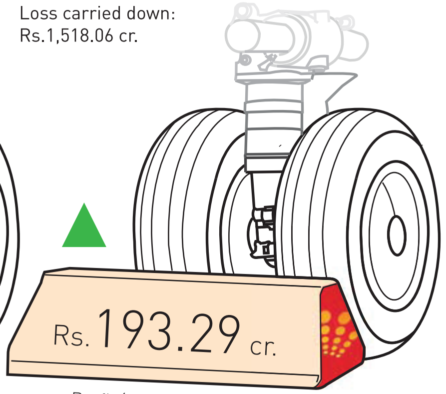
Loss carried down: Rs.26,032.93 cr.



Loss (2013-14)

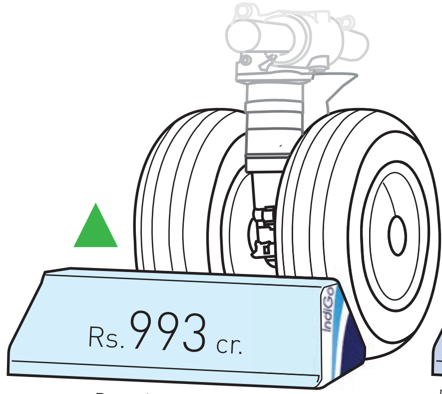
SpiceJet – 57 aircraft

Loss carried down: Rs.1,518.06 cr.



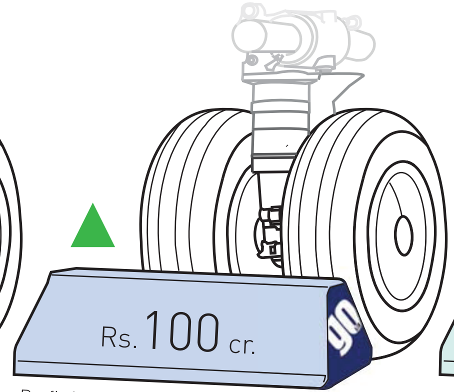
Profit (March 2014)

IndiGo* - 79 aircraft



Profit (2012-13)

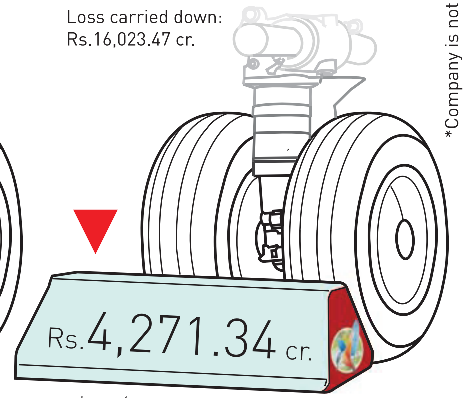
GoAir* - 19 aircraft



Profit for financial years 2013, 2014

Kingfisher Airlines

Loss carried down: Rs.16,023.47 cr.



Loss (March 2013)

*Company is not listed