

3

## Financial and Operational Performance

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### Introduction

India's civil aviation industry is on a high-growth trajectory. India aims to become the third-largest aviation market by 2026. The Civil Aviation industry has ushered in a new era of expansion, driven by factors such as low-cost carriers (LCCs), modern airports, Foreign Direct Investment (FDI) in domestic airlines, advanced information technology (IT) interventions and growing emphasis on regional connectivity.

### Market Size

As per the IATA, India will become the third largest aviation market in the world in terms of passengers by 2026. Furthermore, the IATA also expects the air passengers to grow at a compound average growth rate (CAGR) of 3.7 percent to double from 3.8 billion air passengers in 2016 to 7.2 billion air passengers by 2035.

India's air cargo is estimated to grow at 9 percent over the next few years, according to Ashok Gajapathi Raju, Minister for Civil Aviation, Government of India.

India has become the world's fastest-growing domestic travel market for the 22nd time in a row, recording a 26.6 percent year-on-year growth in January 2017, according to the IATA.

India has replaced Japan to become the third largest domestic aviation market globally, recording a total of 100 million domestic flyers in 2016, as compared to 97 million flyers in Japan during the same period, according to Centre for Asia Pacific Aviation (CAPA).

According to CAPA, domestic air traffic is expected to grow 25 percent and cross 130 million in the financial year 2017-18.

The number of departures from India increased 20 percent year-on-year to touch 131 million in 2016, according to the data by the IATA.

CAPA estimates that India's airlines reported a combined profit of US\$ 122 million in fiscal 2016.

### Investment

According to data released by the Department of Industrial Policy and Promotion (DIPP), FDI inflows in air transport (including air freight) between April 2000 and March 2017 stood at US\$ 1.01 billion.

Key investments and developments in India's aviation industry include:

- Rolls-Royce Holdings Plc, the UK-based aircraft engine manufacturer, has opened a new defence service delivery centre (SDC) in Bengaluru, which would deliver real-time solutions for improving capability and provide faster front-line support to over 750 aircraft engines used by the Indian Air Force, Indian Navy and State-owned Hindustan Aeronautics Ltd (HAL).
- Qatar Airways is planning to start India's first fully owned foreign airline in partnership with Qatar Government's investment arm, Qatar Investment Authority, as per Qatar Airways.
- Indian budget airline carriers Indigo and GoAir, plan to expand their network to Gulf cities like Colombo, Sharjah and Dammam in 2017, which would likely boost the growth of Indian aviation sector.
- GVK Power & Infrastructure Ltd., which operates the existing airports in Mumbai and Bangalore, has won the right to build Mumbai's second airport in Navi Mumbai, which will require an investment of Rs 16,000 crore (US\$ 2.48 billion) to build the airport with a capacity to handle 10 million passengers annually in the first phase, expected to be operational by 2019 and 60 million passengers a year by 2030.
- IndiGo, having 42 percent of the Indian aviation market has entered into a partnership with global distribution system services operator Travel port, to expand its global presence by distributing its ancillary products to the portal's customers across 180 countries.
- Several European countries, including Greece, Netherlands, Georgia and Sweden, have shown interest in signing an open sky agreement with India, following the change of rules in India's National Civil Aviation Policy (NCAP), which is expected to significantly enhance the country's international connectivity.
- During the International Civil Aviation Negotiations (ICAN) 2016 held in Nassau in December 2016, India has signed Open Skies Agreement to encourage connectivity and passenger travel between India and Jamaica, Guyana, Czech Republic, Finland, Spain and Sri Lanka, apart from resolving other issues such as greater traffic rights, new service agreements and code sharing with several other countries.



### Government Initiatives

- In the Union Budget 2017-18, the Civil Aviation Ministry received a substantial increase of over 22 percent in budgetary allocation at Rs 5,167.60 crore (US\$ 775.14 million) for the next financial year.

Some major initiatives undertaken by the government are:

- Indian airline companies like Air India, Spice Jet, Air Odisha and Turbo Megha, have been awarded the right to fly to 128 routes across India, requiring them to cap half the seats at nearly 50 percent of the fare, under the Government of India's regional aviation scheme named UDAN.
- The Government of India has approved the construction of 18 Greenfield airports in the country, which would be executed and financed by the respective airport promoters, and are estimated to require an investment of Rs 30,000 crore (US\$ 4.66 billion).
- The Cabinet Committee on Economic Affairs, Government of India, has approved the proposal to revive 50 un-served and under-served airstrips in three financial years starting from 2017-18 at an estimated cost of Rs 4500 crore (US\$ 698.7 million).
- The Government of India has started a new regional connectivity scheme (RCS) called **Ude Desh ka Aam Nagrik** (UDAN) under which fares will be capped at Rs 2,500 (US\$

37.5) for half the seats in a one-hour flight, as per Jayant Sinha, Minister of State Civil Aviation. The Government of India has also received bids from 11 airlines for the same.

- Jayant Sinha, Minister of State for Civil Aviation, has stated that the government plans to double the number of airports in India over the next two to three years to cater to the increased passenger traffic due to developing regional air travel market.
- The Ministry of Civil Aviation along with Airports Authority of India (AAI) plans to develop small airports with frugal facilities, and encourage private airlines to bid for routes connecting these small airports with existing larger airports, thereby increasing regional air traffic.
- AAI plans to increase its capital expenditure for 2017-18 by 25 percent to Rs 2,500 crore (US\$ 375 million), primarily to expand capacity at 12 airports to accommodate rising air traffic, as per Guruprasad Mohapatra, Chairman, AAI.
- The Ministry of Civil Aviation has revised its air services agreement with Netherlands, which would enable air carriers from both the countries to operate up to 28 flights each week, up from a current weekly limit of 21 flights, which would benefit regional carriers as well as enhance connectivity between the countries.
- The Executive Development Programme of Rajiv Gandhi National Aviation University in collaboration with Indo US – American Cooperation Program, inaugurated by Ashok Gajapathi Raju, Minister for Civil Aviation, aims to promote skill development of senior leadership and close the gap of increasing demand for trained people in the aviation sector.

### **Road Ahead**

India's aviation industry is largely untapped with huge growth opportunities, considering that air transport is still expensive for the majority of the country's population, of which nearly 40 percent is the upwardly mobile middle class. The industry stakeholders should engage and collaborate with policymakers to implement efficient and rational decisions that would boost India's civil aviation industry. With the right policies and relentless focus on quality, cost and passenger interest, India would be well placed to achieve its vision of becoming the third-largest aviation market by 2026.

Exchange Rate Used: INR 1 = US\$ 0.0155 as of April 17, 2017.

### References:

Media Reports, Press Releases, Press Information Bureau, Directorate General of Civil Aviation (DGCA), Airports Authority of India (AAI), Union Budget 2017-18.

This Study project examines the concept of Financial Management in the airline industry. The objective of this study is

- 1) To understand the current and future trends in financial management.
- 2) Exploring new financial management challenges and strategies.
- 3) Analyze and Forecast customer demand.
- 4) Optimize Inventory and Pricing Levels to maximize profitability

“The world is focused on Indian aviation – from manufacturers, tourism boards, airlines, global businesses to individual travellers, shippers and businessmen. If we can find common purpose among all stakeholders in Indian aviation, a bright future is at hand,” said Mr. Tony Tyler, Director General and CEO, International Air Transport Association (IATA).

### Government Initiatives:

Government agencies have projected that around 500 airports in all, both Brownfield and Greenfield, would be required by 2020. The private sector is sought to be involved in a big way through different PPP models, with substantial involvement of state support in terms of financing, concessional land allotment, tax holidays and other incentives.

*References: Media Reports, Press Releases, Press Information Bureau, Directorate General of Civil Aviation (DGCA)*

The variable passenger load factor (LF) describes which percentages of available seat kilometres are actually sold. With this important key performance indicator airlines compete globally. In times of high fuel prices, it is of particular importance that as many as possible seats are sold to cover operating costs that arise regardless of the number of passengers flown, e.g. flight crew or maintenance costs. The continuous rise in load factor reflects the operational importance of well-booked flights. Despite the economic downturns over the last few years, operational decisions by airline managers have led to higher load factors.

We test a number of hypotheses:

- H1:** Airlines are equally exposed to jet fuel prices regardless of their home base.

Due to the globally traded commodity jet fuel, the author expects the same or similar levels of exposure independent of the origin of the airline.

□ **H2:** Financial hedging reduces an airline's fuel price risk exposure. Financial hedging is generally applied to reduce a firm's exposure.

□ **H3:** The higher an airline's fleet diversity the greater the reduction in exposure. In times of high fuel prices and low demand, airlines can operate aircraft models with lower seat numbers and vice versa.

□ **H4:** The longer the average flight distance the greater an airline is exposed to jet fuel prices. The incoherent law of ticket prices and flight distance may make longer distance flights less efficient. The longer a flight the more fuel must be carried on board and the lower the opportunity for tankering.

□ LF in %

□ The load factor per region is the averaged load factor of each airline of that region.

□ Data is collected manually from the airlines' annual reports and 10-K filings.

□ Total Asia Europe North America.

□ **H5:** With increasing load factor risk exposure can be reduced. Certain costs arise regardless of the number of seats sold on a flight, e.g. flight crew expenses. The greater the number of passengers on board the lower will be the level of risk exposure.

□ **H6: Aircraft Fuelling Interface** As ground handling operations take place simultaneously with the aircraft fuelling, these activities should be compatible to ensure the safety and integrity of the operation. The ground handling personnel shall strictly follow the procedure during refueling of aircraft as contained in Rule 25A of the Aircraft Rules, 1937 and CAR Section 2, Series H, Part II. ATF centre in East India are:

- a. Barauni Refinery b. Bongaigaon Refinery c. Digboi Refinery (Upper Assam) d. Guwahati Refinery (Assam) e. Haldia Refinery

## Work Plan and Research Methodology

### Research Methodology

This research is Analytical with a qualitative approach. In Analytical research, the researcher has to use facts or information already available and analyse these to make a critical evaluation of the material. So,

here in this project, I have collected data, mainly from the secondary sources. In the primary source, I have talked to one Cargo Financial Management expert, Sunil Kumar V, Director, Indigo Airlines, New Delhi.

Based on the information from various sources, I go through the financial management scenario worldwide and able to analyse its current and futuristic trends. Also, find new Financial Management Strategies and challenges and to some extent try to predict future of the Financial Management based on the industry experts views.

- 1) Research Design - Exploratory research.
- 2) Research Process - Reports and Expert Review. Moreover, relevant academic theory will be applied to form a theoretical basis for the study
- 3) Literature
- 4) Empirical Data
- 5) Assessment of Quality

#### **Data Collection**

- 1) Primary Data - Expert interview, companies' websites, sustainability report of the company etc.
- 2) Secondary Data- Director General of Civil Aviation (DGCA), Bureau of Civil Aviation Security (BCAS), International Association of Air Transport (IATA) website, Ministry of Aviation etc.

#### **Data Processing**

Refined Data will be processed through various statistical tools and quantitative techniques to arrive at useful information.

#### **Conclusion**

After processing the data following conclusion will be made:

- 1) The primary objective of Financial Management is to maximise the profitability of the company by applying knowledge about the market and the competition
- 2) Significantly increase revenues of capacity-constrained firms through better inventory management and pricing. By using Financial Management concepts
- 3) Protect premium inventory for sale at higher prices by these firms.
- 4) Stimulate market growth by offering discounts and minimize wastage of perishable inventory.