

Why Air-fare War may be a Case of Bad Economics for Jet Airways

Jet Airways (India) Ltd – led by the veteran entrepreneur Naresh Goyal – posted huge losses in the March and June quarters.

During this period, its revenue grew very slowly as compared to other domestic listed carriers – IndiGo, & Spicejet.

Also Read : [Jet Airways emerge](#)

June quarter increase in revenue:

IndiGo – 12% to ₹6,511.97 crore,
SpiceJet – 9.7% to ₹2,199.7 crore, and
Jet Airways – 0.98% to ₹6,257 crore.



June quarter finance costs:

SpiceJet – ₹30.24 crore,
IndiGo – ₹92.73 crore, and
Jet Airways -₹252 crore.

The management of Jet Airways, currently in a serious financial crisis, is trying to evaluate all possible options to raise funds and expedite its turnaround strategy of reducing costs and enhancing revenue. Its employees' cost is higher than that of the miserably sick Air India. Finance and aircraft maintenance costs are also high due to higher debt

and older fleet. Jet Airways directors met and approved a turnaround plan for the airline, which includes a cost reduction programme of more than ₹2,000 crore over two years by cutting corners such aspects as –

- Maintenance,
- Marketing, distribution and sales,
- Optimisation of fuel rates,
- Liabilities arising out of debt and interest,
- Better pricing,
- Improvements in management of inventory,
- Leveraging its JetPrivilege Programme,
- Enhancement of crew, and manpower productivity,
- Capital infusion and
- Fleet simplification.

If this turnaround plan bears fruit, it may reduce the finance costs significantly.

ATF prices along with a weak rupee have severely affected the airlines operating in the country. In addition, a cut-throat competition between the airlines has prevented Jet Airways' need to raise fares accordingly.

Fuel expenses in the June quarter:



IndiGo – + 16% to ₹2,715.64 crore,
Jet Airways – + 12% to ₹2,451 crore.
SpiceJet – + 12% to ₹812.44 crore

As per Jet Airways' chief financial officer Amit Agarwal, Jet

Airways is on track to cut non-fuel costs by 12-15% over the next 18-24 months. He also says that price wars are not beneficial for airlines.

July 2018 domestic market share figures:

IndiGo – 42.1% carrying 4.86 million passengers

Jet Airways + JetLite – 15.1%
carrying 1.74 million passengers

SpiceJet – 12.3% carrying 1.42
million passengers



Jet Airways tries to avoid a fare war with others as part of its strategy. The decision of not matching the fares of competitors on a few routes has impacted the passenger load factor of Jet Airways. The airline's passenger load factor declined from 86.8% in the March quarter to 80.4% in the June quarter, Load factor also fell from 81.7% in the year-ago period.

Aviation experts say that air-fare war for high-growth passenger services is understandable, but there is no pressing need, as such, for the funds-starved Airline companies to please its customers. They must maintain their own house in order first. Air-fare changes must be in sync with the fuel price.

As per aviation analysts, the cost cutting targets not easy to achieve due to the air-fare war for the sake of capturing market share. They conservatively estimate CASK (ex-fuel) to fall 10% to ₹2.9/km by FY20 for Jet Airways.

Jet Airways has inducted more fuel and cost-efficient B737 MAX aircraft. It is racing against time in the current adverse industry scenario of rising competition amid cost pressures. It acknowledges the fund crunch it is presently facing and its resources have become very thin required for its various ambitious plans including those for the lingering fare war. It

has to sell JetPrivilege loyalty and rewards plan that has about 8.5 million members.

Jet Airways hopes the pricing environment to settle and the yields to improve in the coming quarters.

Hopefully that happens soon !

UDAN : Contrasting State of Affairs at Bokaro, Jharkhand and Darbhanga, Bihar

The Union Civil Aviation Minister Suresh Prabhu has said on social media Twitter that Bokaro airport in Jharkhand will start functioning fully by this year end and will have direct flights to Kolkata and Patna under the government's Ude Desh ka Aam Nagrik (UDAN) scheme. This development would contribute significantly towards enhanced connectivity and economic growth in this region.

The UDAN-RCS scheme seeks to connect unserved and under-served airports in the  country with fares capped at Rs 2,500 for one-hour flights.

Also read : [New Civil Aviation Policy could have Made Air Fares 2% Cheaper](#)



Jharkhand Chief minister Raghubar Das and Union minister of state for civil aviation Jayant Sinha recently laid the foundation stone for the expansion of Bokaro airport. Soon, commercial flights for

Calcutta and Patna are planned to be launched. An MoU has been signed between Steel Authority of India Ltd and Airports Authority of India (AAI) in New Delhi earlier this year.

The AAI would operate and manage the flight operations. Upgrading of the Bokaro airport, however, will require an estimated investment of further Rs 52.57 crore. Its 1,673-metre long and 30-metre wide runway will allow an 80-seat aircraft. Other development works like the setting up of an expandable low-cost terminal building having six counters and parking facility for 20 cars are in the process of being awarded. A control tower, watch towers and precision approach path indicator are also on the list.

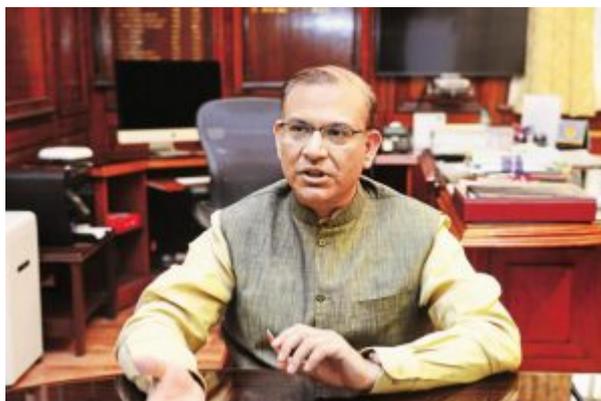
The present situation at a number of other airports in Jharkhand are:

Jamshedpur – awaiting the technical sanction by the Directorate General of Civil Aviation to start commercial services.

Dumka – To be developed to operate flights to Patna and Calcutta

Hazaribagh, Giridih, Dhanbad and Daltonganj – possibilities being explored

Parasnath – an helipad to be developed



Even as Jharkhand got a kick start of the UDAN scheme, neighbouring Bihar is still waiting for its UDAN to commence.

The Darbhanga airstrip project recently hit a roadblock. It did not get any bidder for re-carpeting of its 8,000 feet long runway.

As per AAI tweet on August 18, tenders for the construction of approach road, installation of PAPI and conveyor belts have been awarded. Construction work will be initiated to ensure smoother connectivity to and from the terminal building and dispersal area.

Consequently, AAI officials had to admit that operation of flights from Darbhanga, which was to commence from January 2019, will be delayed. Earlier in January 2018, SpiceJet was awarded permission to operate flights from Darbhanga to Delhi, Bengaluru and Mumbai.