

# Will it be prudent for Jet's promoters to put in Rs 750 crore further?

Jet Airways was founded by Naresh Goyal 25 years ago and is currently 51% owned by him. 24% of its stake is held by the Abu Dhabi based Etihad Airways. Till September 2018, the airline operated 124 planes, of which 16 were owned and the rest were taken on lease. As per Jet Airways website, the airline has 119 aircraft in its fleet. However, only 70 are currently operational. The remaining 49 aircraft are grounded and the airline has been told to ensure that passengers do not suffer because of flight cancellations resulting from this situation, as per the Directorate General of Civil Aviation.

Lessors take action on Jet Airways every other day. At least seven of them have claimed pending payments for leasing and maintenance reserves since October. As the deadline draws near—around the end of 2019—when Jet Airways may file for bankruptcy, lessors will like to get their aircraft out of India in time.

India's Jet Airways is seriously embroiled in a quagmire of debt and losses resulting in the grounding of its aircraft fleet and the cancellation of some 200 flights a day. The revenues continue to slump while the costs increase; the gap is getting progressively wider.

Jet Airways owes more than \$300 million to government-owned State Bank of India (SBI). The airline has overall Rs 8,000 crore of debt outstanding and a current market capitalisation of Rs 2,766 crore. Over Rs 2,500 crore of loans are coming up for repayment in FY20 and currently the airline is not earning enough cash to feed itself.

In banking business, lenders do not want to be shareholders in

their borrowers' ventures, because they have little knowledge of their business. In case of Jet Airways. they, however, agreed to a debt conversion. As per the comprehensive resolution plan, lenders will convert part of their debt into equity with a 49% stake in the airline.

The buzz in aviation industry is: 'Keeping Jet flying is crucial for lenders because apart from collecting advance money through future ticket sales, there is no way for them to recover their loans. Lenders have thus no choice but to convert debt into equity.'

SBI and Punjab National Bank (PNB) will bring in Rs 500 crore as an emergency infusion, subject to other lenders agreeing to the two banks being allowed to take out their money first. There is another condition: the airline owners (Goyal and Etihad) must bring in another Rs 750 crore as contribution of the promoter.

### **The airline faces a bleak future.**

Today, the Jet Airways situation is so critical that 'emergency financing' is needed desperately to keep Jet's planes in the air and to re-induct aircraft that have been grounded for lease-payment defaults or for want of spares.

Jet Airways could get emergency funding if the promoters agree to bring in Rs 750 crore. Etihad could help Goyal further if he agrees to step down from his management control.

To lend further some reassurance, the International Air Transport Association (IATA) earlier this year has said that it is carefully watching the Jet Airways situation as the airline is on its billing settlement plan.

"Jet Airways continues to be of good standing in the IATA settlement systems," IATA official Albert Tjoeng told media. "We are in regular communication with the airline to review their position."

## **Lifeline for Jet Airways only after promoters put in Rs 750 crore**

Jet Airways' future, thus, hinges on bank debt settlement. More specifically, it is on the Rs 750 crore that Goyal and Etihad are supposed to bring.

In business circles the buzz is: 'Even after putting in further Rs 1000 + Rs 750 crores in Jet Airways, there is no guarantee that the airline will start earning profitably. First and foremost, it has a mountain of liabilities to clear presently lying as backlog. With a Rs 750 crore in hand, an investor has a wide range of other investment choices. To put money further in Jet Airways will surely not make a prudent business sense.'

As such, the lenders should now see on ways and means to salvage their money by liquidating Jet's visible movable and immovable assets. After two months since December, the lenders could only manage to draw a plan which is non-workable. While Jet Airways kept losing one plane after another to its lessors, the lenders just wasted their time, money and resources.

While the lessors can predict Jet Airways go bankrupt by 2019 end, the lenders did not like to spare a thought on it. They exercised on something else and wasted two full months. They should have started salvage proceedings immediately after December 2018 because that, too, takes its own time. With every passing minute, Jet's assets' value is diminishing with no signs of any recovery or addition in near future.

The on-lookers have now become accustomed to the news of Jet's flights getting cancelled, its planes being repossessed. Airline all over the world are closing their shops one after another. Some of them have filed for insolvency. In February 2019, 99 airplane orders with Airbus were cancelled. Jet's Etihad was one of the airlines which refused to accept Airbus deliveries. One day, no wonder, Airbus will also meet a

similar fate.

The experienced lenders must have seen the writing on the wall. They must have understood the nature of aviation business wherein making a reasonable profit which could justify the investment is ruled out, paying interest and debt are beyond its means.

Today, a stage has reached for Jet Airways from where it is destined to go into the annals of aviation history as another failed story.

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