Will Jet Airways emerge out of the woods?

As on 31st March, 2018, Jet has a number of types of planes in its fleet of 112 aircraft, comprising:

– 10 Boeing 777-300 ER aircraft,

– 5 Airbus A330-200 aircraft,

– 4 Airbus A330-300 aircraft,

– 75 Next Generation Boeing 737-700/800/900/900ER aircraft,

– 15 modern ATR 72-500 Turboprop aircraft and

– 3 ATR 72-600 aircraft.

It is one of the most complex fleet structures in the world. Without fleet simplification Jet has been unable to check the unusually high engineering maintenance and operational costs.

The average fleet age as on 31st March, 2018 was 8.44 years; most of its wide-bodied planes more than 10 years old, elder than the ones flown by Air India.

With this fleet, its performances in two years have been :

Flights to 45 domestic destinations (includes flights operated by Jet Lite) and 20 International destinations.

Jet Airways Parameters		
	Year ended 31/3/18	Year ended 31/3/17
Departures	2,34,069	2,25,938
Passenger Load factor	83.6	81.3
Number of passengers flown	2,99,46,998	2,71,47,736
		Rs in lacs
Revenue from Operations	23,95,837	23,04,087
Total Expenses	24,72,599	21,55,855
Aircraft Fuel Expenses	6,95,325	5,47,378
Aircraft maintenance	2,37,517	1,94,396
Employee Benefit Expenses	2,99,535	2,89,001
Result	-76,762	1,48,232
	(Loss)	(Profit)

- *Salaries comprise 12.1% of Jet's total expenses in 2018. Down from 13.4% in 2017.*
- *Aircraft maintenance comprises 9.6% of Jet's total expenses in 2018. Up from 9.01% in 2017.*
- *Fuel comprises 28.12% of Jet's total expenses in 2018. Up from 25.39% in 2017.*

Figures indicate that Jet Airways has shown better aircraft utilisation compared to its contemporaries but its unusually high cost structure has always been a point of concern.

Jet Airways is now reviewing its business model and giving its cost structures a rethink.

Jet Airways, while celebrating its 25th anniversary and despite a general healthy aviation environment, is not experiencing anything rosy. It is yet to evolve as a professionally managed airline. It has rarely come up with any innovation.

My salary is going to be cut, What do I do?

Jet is forced to fire its own employees instead of giving them equity shares or more growth avenues. Recently, Jet Airways even made a statement, “The airline’s financials are in a bad shape. It will be unable to fly beyond 60 days unless drastic cost-cutting measures, including a 25 per cent pay cut, are put in place.” Jet later withdrew its move to cut staff salaries after facing stiff protest.

Jet Airways has been facing several troubles recently. As a norm, Jet blames high fuel prices, high taxes, airport charges, weak rupee, increased maintenance and overhead costs, that is, factors beyond its control. Its problems get compounded with tough competition from other low-cost carriers like Indigo, GoAir and Spicejet. Due to this, Jet is caught in a web. On one hand, it is reluctant to pass on the rise in jet fuel prices to customers, while on the other hand it is forced to fly its planes with unsold seats. Thus, Jet Airways is forced to dive into losses. In the fourth quarter of 2017-18, the airline reported a net loss of Rs 1,040 crore in comparison to the Rs 583 crore profits in the fourth quarter of 2016-17.

Jet has also lost market share. The drop in the domestic market share has been a significant 13.9% in June 2018

Jet’s shareholders, too, did not make any money. They went empty handed this year without any dividend, its stock eventually crashed to a 156-week low and lost more than 66% of its value this year.

In view of such a deteriorating financial performance, the rating agency ICRA has lowered Jet's credit ratings. What surprised the industry most was Jet's attempt to defer announcement of quarterly earnings report resulting in several rumors and theories. Investors and lenders detest uncertainties like this.

Post PNB episode, Indian banks and lenders are no more enamored by high-profile, glamorous companies. How can a lender consider lending money to a company like Jet, which is already immersed in Rs 11,000 crores of debt and is consistently losing more than Rs 3 crore a year? SBI chairman Rajnish Kumar has said that the airline has not approached SBI for funds.

Today Jet stares at its own survival. Business analysts trace the root cause of Jet's woes to its partnership with Abu Dhabi based Etihad Aviation Group – wholly owned unit by the Government of Abu Dhabi.

Etihad, on an investment spree in 2011, chose a business strategy of code-sharing and purchasing equity in airlines around the world with a goal to capture the markets and take lead over rival Gulf airlines. Etihad presumed that its partner airlines would feed their passenger traffic into its base at Abu Dhabi.

This Etihad's business strategy did not go very well with its alliance partners as their expansion plans suffered miserably. Two of Etihad's European peers- Alitalia and Air Berlin – were declared bankrupt last year while the equity in Darwin Airline (Etihad Regional) had to be sold off.

It is secretly feared that Jet Airways could be the next in line. Kingfisher has earlier been wiped out.

Etihad holds 24% equity stake in Jet Airways. For Etihad, Jet contributed nearly 50% of all partner seat capacity into Abu Dhabi last year. Jet like Etihad's other alliance partners has gone under severe financial strains. Analysts in aviation circles believe that Jet's situation is due to its partnership with Etihad, which reduced it to a feeder airline for its base in Abu Dhabi.

In August 2015, the chairman of Jet Airways, Naresh Goyal echoed this sentiment. He had stated, "We are feeding a lot of traffic to Abu Dhabi but we are not a feeder airline of Etihad Airways. Our partnership with Etihad is a global one."

Now it is believed that acquisitions may not always succeed in aviation industry unlike IT or telecom sectors.

For Jet, to come out of the present financial mess, Its managers try to build a real turnaround plan which may encompass several cost cutting measures and optimum utilisation of available resources apart from fund mobilisation. Several marketing initiatives need to be taken by Jet.

For Jet, to come out of the present financial mess, three most important steps have been suggested:

- Change in strategies,
- Further capitalization and refinancing of the airline's existing debt, and
- Cost-cutting measures.

Change in Business Strategies.

Grow proximity with Air France and distance with Etihad.

Learning a few lessons from the Etihad's experience, Jet Airways has started to change its business plans. Over the past few months, Jet has been working with alliance partners over hubs in Abu Dhabi, Amsterdam, London and Paris. Its partnership agreement with Air France-KLM and Delta, signed in November 2017 and based on 'metal neutrality' business model gives connectivity to over 200 destinations in Europe and US; the passengers get more options as they can travel directly to Europe or via Gulf. This may generate over $1 billion of revenue for the partner airlines.

Another Indian airline, TruJet, is in talks with Jet Airways to sublease up to 7 ATRs. This news caused the price of Jet Airways scrip to increase 3.25% to Rs 310 from Rs 300.25. When asked for clarification under regulation 30 of the SEBI (LODR) Regulations, 2015, Jet Airways, said, "The Company continues to evaluate all possible alternatives to ensure optimum utilisation of its fleet and is committed to make appropriate disclosures of those events or information that have a bearing on the operation or performance of the Company."

Jet Airways, as usual, resorts to marketing gimmicks as well. It lets its passengers pick their seats at Rs 200 till August 31. Will such a move erase its Rs 11,000 crore debt. It remains to be seen.

Capitalization and Refinancing of Jet's Existing Debt.

Jet Airways To Raise Rs 2,000 Crore From NBFCs through forward sales. The funds may help to overcome its liquidity crisis.

The airline has approached non-banking financial companies (NBFCs) to raise Funds. The cash strapped airline is in talks with NBFCs to raise around Rs 1,500-2,000 crore against its forward sales. That is, in return to raised amounts, bookings made through credit cards on Jet Airways' portal will directly go to the concerned NBFCs.

Jet has said that it was considering various options on priority to meet its funding requirements. U.S. private equity firm Blackstone Group LP is in talks to acquire a stake in the frequent-flier loyalty programme of Jet Airways (India) Ltd. A potential deal could value the loyalty programme, Jet Privilege Private Ltd, between Rs 30-40 billion and would be dependent on Jet Airways securing adequate funding for its airline operations.

Austerity.

Aviation analysts have pointed out that a bloated cost structure and poor management are at the core of Jet's problems. To make matters worse, Jet carries a massive debt of over Rs 11,000 crores. Fixing Jet would require drastic measures like a new massive equity infusion, a change of ownership and/or restructuring of the debt, and cost cutting measures. Jet's woes are real and severe. Jet needs to shake up its of cost structure and way of operating for the sake of greater transparency and better financial management. Why does it allow flights with empty seats?

Cost cutting measures like pay-cuts must be implemented along with equity participation schemes for the employees which will eventually result in a win-win situation for all.