

# An Analysis of Profitability and Growth of Private Jets

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**Abstract :** *The aviation sector has become the most important segment in the economic development of a nation. This study examines the underlying forces which are the prime cause for the consistent success over the years of the private Airline under weak market condition. The findings of this study are based on the analysis of a sample of 120 respondents. This study analyzed the data from different class of individuals on the basis of customer satisfaction, growth, and profitability of the airline in the highly competitive market. Recommendations have been made to make the airline more sustainable.*

**Keywords:** Aviation, Business Model, Industry analysis, Low Cost Carriers in India, Private Jets.

## 1. Introduction

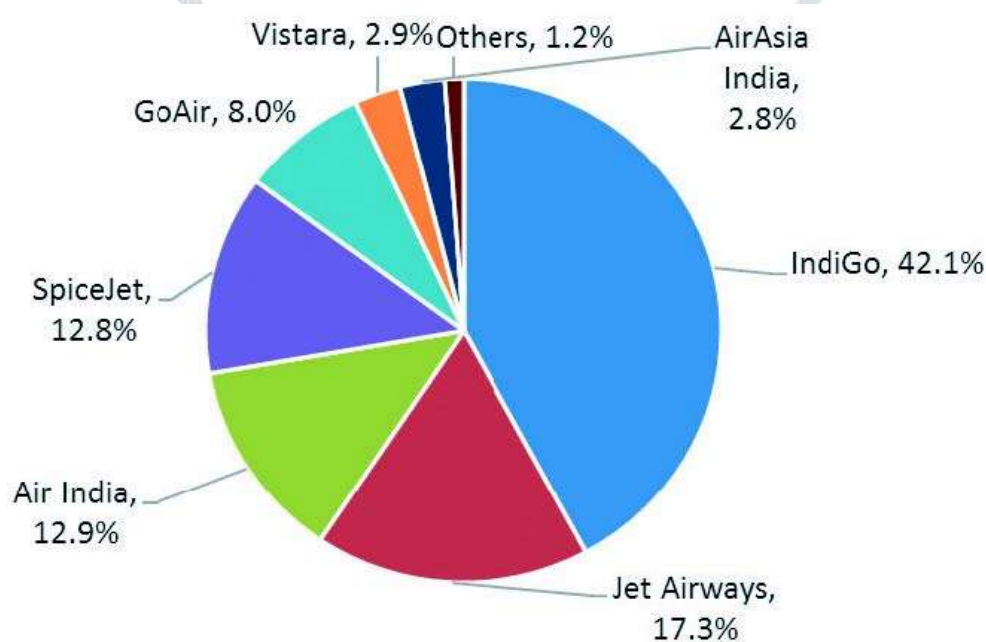
India has seen extraordinary growth in civil aviation over the past decade and is forecast to be one of the world's largest aviation markets in just a few years. The potential of the Indian aviation industry is enormous. The market already has about 150 million travellers passing through its airports, with the capacity to grow further. By 2020, traffic at Indian airports is projected to touch 450 million. Furthermore, India's aviation industry supports about 0.5 per cent of the Indian GDP and close to 1.7 million high-productivity jobs. The annual value added by an employee in air transport services in the country is nearly 10 times greater than the Indian average. In 1994, the Air Corporation Act of 1953 was repealed with a view to get rid of the monopoly of air corporations on scheduled services, enable private airlines to operate scheduled service, converted Indian Airlines and Air India to limited companies which were merged together in 2012 and enable private participation in the national carriers. Since 1990 private airline companies were permitted to operate air taxi services.

Currently, India's aviation domestic market is on track to surpass 100 passengers for the year 2017 and expected to increase to 130 million passengers by the end of 2018.. India is likely to overtake Japan this year to become the world's third largest domestic market next to USA and China. To reach this milestone, India had achieved average domestic traffic growth of over 15% per annum since the liberalization of the sector commenced in the year 2004. Strong economic fundamentals contributed for the growth though traffic has been over-stimulated by low fares. India achieved 7.5% GDP growth in the year 2017. Moreover, the ramifications of the Indian government's demonetization initiative announced in November 2016 are

still unclear but the expected growth is 25% but may be tempered by 3-4 percentage points because of impact of demonetization.

Last years were a turnaround of the India's aviation Industry after several difficult years. The lower fuel prices, capacity growth and strengthened economic fundamentals were largely responsible for surging and improvement in financial status of airlines in 2016. Domestic traffic was increased by 21.2% and international grown by 7.7%. As per CAPA report Indian airlines industry had reported combined profit of USD 122 Million in the year 2016, the first time in a decade. The major contribution was by Indigo, Jet Airways, GoAir, and Air India Express.

Air transport (including air freight) in the country attracted foreign direct investment (FDI) worth US\$ 519 million in the period 2014–2017, according to data released by Department of Industrial Policy and Promotion (DIPP). The total fleet size of commercial airlines in India was 561 by February 2018. Passengers carried by domestic airlines increased by 29% i.e. 148 million (2012-14) to 191 million (2014-16).



In 1990 East West Airlines becomes the first national level private airline to operate in the country after 37 years, after the government decided to end Indian Airlines a monopoly over domestic civil aviation. In 2004 on August 26, Air Deccan turns into the first truly national budget carrier with the launch of its A320 flights on the Delhi - Bangalore route.

The growth of airlines traffic in Aviation Industry in India is almost four times above international average Aviation Industry in India holds around 69% of the total share of the airlines traffic in the region of South Asia. The growth in civil aviation over the past decade and is forecast to be one of the world's largest aviation markets in just a few years. Despite extraordinary growth in traffic, most of India's airlines are in a

precarious condition. Despite forecasts that India will add more than a thousand transport aircraft to its civil fleet in the two next decades, India has too few airports and today lacks the aviation safety infrastructure required to handle the growth. With multiple headwinds, the shortage of proper infrastructure and lack of easy access to airspace and landing permits and lacks manpower resources with technical expertise; Indian carriers have adjusted their business models. Although the attempts have been more common among full-service airlines, LCCs have also continued to focus on maintaining lean cost structures.

## II. Research Methodology

The research was undertaken with a private airline, in the present scenario around 12 domestic airlines and above 60 international airlines operating in India. Some of them are Air India (flag carrier airline of India), Spice jet, Jet Airways, Go Air, Air Asia.

**Air India:** is the flag carrier airline of India owned by the government run Air India Limited (AIL), commenced its operation on 15th Oct 1932 (as Tata Airlines). Currently it has fleet size of 111 and covering 90 destinations (as of Jan 2014). Air India has been increasing its European and North American network, launching new non-stop services from Delhi to Vienna, San Francisco and Madrid over the last 12 months and a one-stop between Ahmadabad and Newark via London.

New destinations under consideration for next year include Washington, Toronto, Nairobi, Tel Aviv, Copenhagen and Stockholm. But CAPA believes that the viability of Air India's ultra-long haul routes could increasingly be challenged beginning FY2018 due to cost creep and a possible softening of yields.

**Spice jet:** offers low cost airfares and experience leading levels of service & convenience. Spice jet commenced its operation on 5th may 1993. As of January 2014 its fleet size is 57, covering 54 destinations. Spice Jet first, followed by Vistara, will be the primary drivers of new aircraft orders, both of whom are expected to stick with Boeing and Airbus respectively for their narrow body fleet requirements. For its long haul operations, Vistara is likely to opt for the 777X.

**Jet Airways:** is the second largest Indian airline based in Mumbai, Maharashtra. It has 100 fleets (excluding subsidiaries) 76 destinations worldwide. In April 2013 Etihad Airways has infused \$379 million in Jet Airways to buy 24% Stake. Jet Airways is focusing on international growth and the Amsterdam hub signals a revival of its long haul ambitions. The re-induction of 10 777 aircraft which Jet had sub-leased to other airlines, and some of the 777s could be used to launch several new routes. The carrier has been up gauging capacity to Amsterdam and Paris and has entered into extensive code share agreements with Delta, Air France and KLM for connectivity to the US and Canada. Closer cooperation with these carriers may be a prelude to Sky Team membership in the next two years.

**Go Air:** is an Indian low-cost airline based in Mumbai. It commenced operations in November 2005. It is the aviation foray of the Wadia Group. As of May 2013, it is the fifth largest airline in India by market share. It has Fleet size of 17 and covers 21 destinations.

**Air Asia:** A joint venture between Air Asia and the Tatas for a new low cost airline that was proposed and has received the government's permission.

**Indigo Airlines:** Indigo - an Indian airline company headquartered at Gurgaon, India was set up in early 2006 by Rahul Bhatia of InterGlobe Enterprises and by a United States-based NRI Rakesh S Gangwal, Caelum Investments. It is one of the low cost and fastest growing carriers in India with a market share of 30.3% as of September 2013 and only profit making airline in past few years.

Indigo's share of traffic has crossed 40% and could approach 55-60% within the next two years, a remarkable achievement in such a large and competitive market. As its share grows the carrier is becoming more competitive with its pricing. Indigo will take delivery of more than two aircraft a month through to March 2018 which will see its fleet size reach 160 by then (of which around 140-145 aircraft will operate on domestic routes). The improved economics of the A320neo will further strengthen Indigo's market position. The carrier remains highly profitable and the market leader on all counts.

### III. Review of literature

Indian aviation sector has witnessed a phenomenal growth chart in the last decade. Today, India is the 9th largest civil aviation market in the world and ranks fourth in domestic passenger volumes with a market worth of US \$12bn. As per AAI, passenger handling capacity has risen two-fold from 72 million (FY 06) to 143 million (FY 11), and freight traffic has risen from 1.5 million MT (FY '06) to 2.3 million MT (FY '11). The Airport Authority of India (AAI) was the only major player involved in developing and upgrading airports in India for a long time, but private sector participation has increased post liberalization. Major Private Sector players in aviation are GMR Infrastructure, GVK, Siemens, Larsen & Toubro Ltd., Maytas Infra Ltd., and Unique Aviation Services Pvt. Ltd.

- A 2012 KPMG report cited a 15.6 per cent increase in the Compound Annual Growth Rate (CAGR) in domestic passenger throughput over the five-year period concluding in FY 2011. KPMG also forecast domestic throughput of 293 million passengers by FY 2020, up from 106 million (actual) in FY 2011 and 51 million (actual) in FY 2006. Late in 2012, the International Air Transport Association (IATA) predicted that India's domestic air traffic would experience double-digit growth between 2012 and 2016.
- The number of people travelling by domestic airlines grew by over 13 percent in October, as high demand during the holiday season arrested a five-month downward streak, with low-cost carrier Indigo retaining its position as the market leader. The total number of passengers carried by scheduled domestic airlines grew to 45.55 lakh in October, from 40.18 lakh in previous month, the Ministry of Civil Aviation said in a release. Indigo carried the largest 12.66 lakh passengers, commanding a market share of 27.8 percent in the month of October. In terms of market share, Indigo was followed by Jet Airways and JetLite combined (24.7 percent), Air India (20.8 percent), Spice Jet (19.1 percent) and Go Air (7.6 percent).

- A year after the government changed its policy to allow foreign airlines pick up stake in Indian carriers, tangible results in the form of the Jet-Etihad deal, AirAsia India and Tata-Singapore Airlines joint ventures, were seen in 2013 which are expected to bloom within a year. While Air Asia India may get its air operator's permit by January end, the Tata-SIA venture, which has applied for a no-objection certificate from Civil Aviation Ministry, may take a few more months to get its AOP. 2013 also saw a major policy shift in opening up of six major airports, developed by state-run Airports Authority of India, to private partnership. Civil Aviation Ministry is also considering moving the Union Cabinet to change the rules to allow Indian carriers to fly abroad. Currently, only those airlines are allowed to do so which have operated on domestic routes for five years and have 20 aircraft.
- Loss-making Air India, whose fate will have to be decided by the next government, is facing a double whammy on the pilot front. The airline pays them for a fixed number of hours — irrespective of their actual flying — and then at a higher rate if pilots fly for more than those minimum hours. AI has discovered that a substantial chunk of its 1,600 pilots (combined strength of erstwhile Indian Airlines and AI pilots) are flying much less than the fixed hours that they are paid for. And as a result, the remaining pilots have to fly more, forcing the airline to pay them at higher rates! Both the situations mean a big loss for the airline.
- Country's largest passenger carrier Indigo lost market share for the first time in seven months in November. Its market share came down to 28.6 per cent versus 30.2 per cent in October. National carrier Air India regained the second spot with a 19.3 per cent share of the market while Spice Jet fell to the third spot with 19 per cent. Jet Airways had 18.5 per cent share of the market while Jet Lite had 5.6 per cent market share. Mumbai-based low-cost carrier Go Air, managed to improve its market share to 8.8 per cent in November. As per the DGCA data, load factor — the measure of the number of seats filled on a flight — improved significantly in November. In October, only Indigo and Air India breached the 70 per cent load factor mark. But in November, Go Air joined the mix. Indigo also slipped in terms of on time performance and went down to 86.5 per cent during November, down from 92.1 per cent in October.
- A new war over air-fares has begun, barely hours after Spice jet slashed domestic fares by 50 percent, competitors Indigo played catch-up as did Air India. Spice Jet is offering to fly from Bangalore to Mumbai for a measly Rs 1,902, excluding taxes or from Delhi to Mumbai for Rs 2,830 or from Chennai to Delhi for Rs 3,293 - that's around half the price of a normal ticket. Dramatic discounts on these three routes, and nine others, are part of the airline's three-day super sale. Rival Indigo has dropped prices in a more discreet fashion, while Air India is offering a special scheme that gives a 50 percent discount. Spice jet believes this will help boost load factors and revenues.

#### IV. Research Design

India is one of the strongest markets for private jets with strong economic growth, expanding business interest and increasing number of billionaires. The private jet market in India constitutes 12% of the global

market and is bigger than Asian market in China and Japan. As per the Business Aviation Association of India, there are 680 business aviation aircraft including private jets, helicopters, turboprops, and piston engines and this number is expected to reach 2000 by 2020.

With the economy booming and private industry flourishing, private jets have become a regular mode of transport in order to save time and to realize value for money. There are many private players who had been successful and lost the business later but there are few players who had sustained in all the economic phases. Reason for choosing the topic “Analysis on profitability and growth of Indian private jets” is to find out the level of risk faced by the private jets influencing profitability and growth.

### Objectives

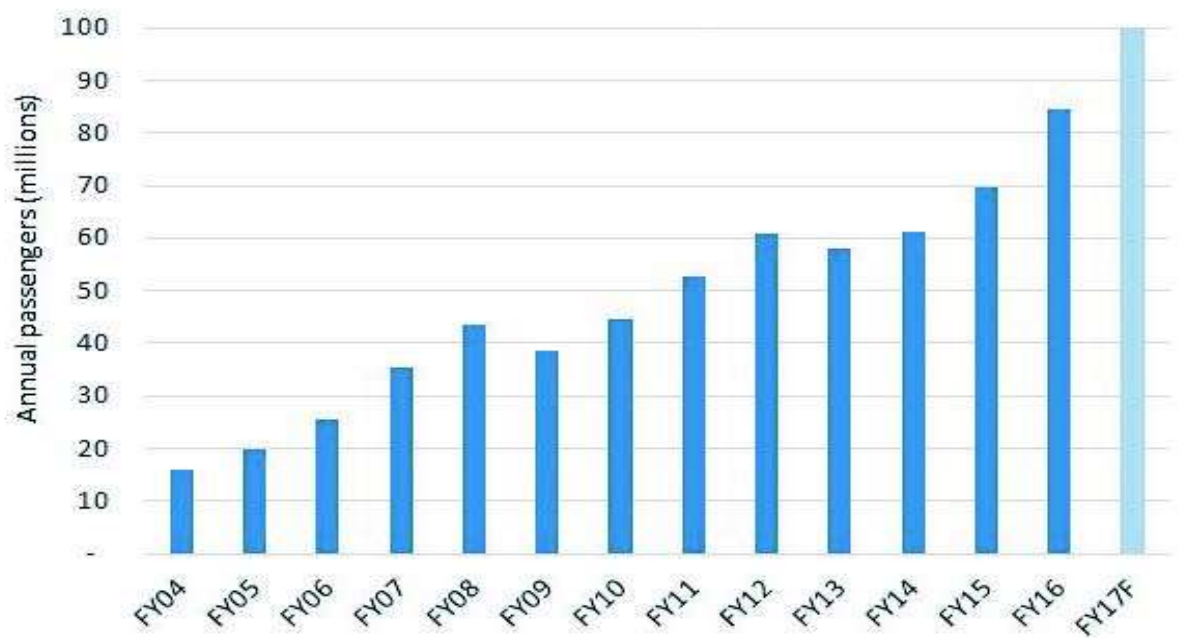
- To analyse the key factors contributing to the increase of profitability and growth of private jets.
- To suggest the strategy to improve the profitability and the growth of private jets.

The study was under taken for two months January and February 2018. The primary data was collected by distributing questionnaire among the regular users of private jets. The sample size is 120. Research design proposed for the study is “descriptive” type of research service this type of research does deals with quality of responses from the respondents attitude, technical skills, experience, behavior etc. Primary data was collected by questioner survey method and secondary data was collected from journals and research articles to support the research. The statistical tools used to analyse the data are factor analysis, regression and frequency table.

### V. Results & Discussions

The reliability test was taken to find the reliability and validity of the variables chosen for the study. The Cronbach’s Alpha reliability test had shown that 76% of the chosen independent variables influence the dependent variables.

Cronbach’s Alpha	Cronbach’s Alpha Based on Standardised items	N of Items
0.764	0.755	18



The profitability of the Airlines was influenced at a level of 23% by the usage of single model of aircraft by the company helped them to build a strategy to minimize the maintenance overheads and by making the employees to work in multiple roles further reduced the cost of additional human capital which in turn has contributed significantly 24% level of increase in their profitability.

More over the high fuel cost and weakening of rupee has imposed biggest challenge to the whole industry and has faced 2% decline in their profit. The airlines have to always work-out a strategy to compete other low cost carriers which if ignored will result in a risk proportion of the company to the extent of 27%.

The growth of the company depends on the market potentials and demands both in domestic and international air routes, the company have to explore both the markets as the growth of the airlines, 27% dependent on exploring market opportunities.

The competitors are too fast in introducing innovative designs, models, range of classes, customer preferences. To be self sustained with skilled competency the airlines have to concentrate more on providing better service designs, and many routes as compared to competitors which will help the company to grow at a level of 25%.

## VI. Recommendations

1. Make it simple and target potential customer: In emerging countries like India majority of population is belong to middle class who see air travel as something beyond their reach. To change those airlines should come with affordable price line and simplified process as simple as booking tickets for buses and trains. LCC's like Indigo, already in business by providing cheapest fare which needs to be worked more. "Air Transport is just a glorified bus operation"
2. Increase domestic operation: The non-metro airports presently account for only about 30% of the total air traffic. Domestic air travel needs to be encouraged. Airlines should focus on connecting

different areas across country. To facilitate domestic expansion government is planning to construct nearly 200 low-cost airports on non-metro cities in the next 20 years to fulfill the demand for air travel.

3. **Cargo Market and Chartered Plane Service:** The freight/cargo market and chartered plane service are the areas that can prove to be good potential market. As compared to road ways air cargo not explored to optimum. As per the reports from an economic survey, it was stated that domestic cargo showed a growth of 14.55%. For air cargo, India was forecast by IATA to be among the five fastest growing international freight markets.
4. **Cost Leadership Strategy:** Increasing profits by reducing costs considerably while, charging industry-average prices. Volumes – Increasing market share through charging lower prices, while still making a reasonable profit on each sale because you've reduced costs.
5. From the view of cost reduction technique, it is ideal to stick with one or with few types of aircraft to reduce the operational overheads. Currently Low cost carrier follows this to minimize its maintenance cost
6. On time service – 5 hrs of delay for an hour or two may not be reasonable; airlines should maintain on-time service to gain reputation.

## VII. Conclusions

The Airport Authority of India (AAI) was the only major player involved in developing and upgrading airports in India for a long time, but private sector participation has increased post liberalization. Major Private Sector players in aviation are GMR Infrastructure, GVK, Siemens, Larsen & Toubro Ltd., Maytas Infra Ltd., and Unique Aviation Services Pvt. Ltd. India's aviation market would surpass the US and China by crossing a billion passenger trips per year in the next 10 to 15 years, the aviation industry equaled the Indian Railways in terms of turnover as it generated a total revenue of about Rs 1.8 lakh crore this fiscal. The growth in aviation sector is unprecedented. In the last three-four years, we have actually been growing at 15-20 per cent. From 100 million passenger trips a few years ago we will double to about 200 million passenger trips in 2018. In fact, India is already the third largest domestic aviation market in the world only after the US and China. The US stood at around 900 million passenger trips per year and China was at 600 million, and that projections point at India growing to a one billion passenger trips market in the next 15-20 years. Aviation was going to be one of the largest industries in India and airlines had placed orders for over 900 planes.

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