SPREADING REACH

Indian carriers increasingly add international routes to their flights

Airlines are beginning to reap the benefits of a growing domestic consumer base and fleet modernization

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NEW DELHI

Indian carriers are becoming increasingly competitive on international routes on the back of a growing domestic base of air passengers and fleet modernization.

Until 2004, national flag carrier Air India was the only airline flying to overseas destinations. Since then, private carriers **Jet Airways (India) Ltd** and **Kingfisher Airlines Ltd** have added international routes to their expanding domestic operations.

But the story began a year before that, when India moved on from being a dedicated full- service airline market to start relying increasingly on the globally successful no-frills model.

The growth of low-cost carriers (LCCs) such as Air Deccan (now Kingfisher Red), SpiceJet, IndiGo and GoAir has doubled the number of annual fliers to 44.5 million in 2009 from 22.3 million in 2005. It was this boom that set the stage for the start of international operations by private carriers.

"Your home market is your biggest asset," said Azran Osman-Rani, chief executive of the long-haul low-cost airline AirAsia X, based out of Kuala Lumpur, Malaysia.

"When you have that, you are able to build it as a base relatively easily for international flying. In Malaysia, for example, we have only 27 million domestic passengers annually," Azran added.

The 17-year-old Jet Airways, which runs the domestic LCC JetLite, launched its first international flight to Sri Lanka in 2004. Since then, it has added 22 destinations, including Johannesburg, Newark, Toronto and a European hub at Brussels.

There have been some setbacks—such as the cancellation of a Mumbai-Shanghai-San Francisco route in 2008. Still, Jet Airways, India's largest airline group by passengers carried, has managed to convert its loyal domestic customer base into a clientele for international flights and now earns 60% of its total revenue from overseas operations.

New frontiers: *An air hostess serving passengers in a Jet Airways plane. Jet has managed to convert its domestic customer base into a clientele for foreign flights; 60% of its revenue comes from overseas operations.*

Kingfisher Airlines launched international services with a Bangalore-London flight in 2008 followed by Mumbai-London in 2009. Soon after that, British private carrier Virgin Atlantic pulled out of the Mumbai-London route and entered into a code-sharing agreement with Jet Airways, so it could still book its passengers for that route on Jet flights.

Kingfisher Airlines now covers eight international destinations, including Hong Kong and Dubai, and earns 19% of its total revenue from them.

India's oldest airline, **National Aviation Co. of India Ltd**-run Air India with a 135-aircraft fleet, operates on at least 35 international routes, including Paris, Chicago, New York, Toronto and Kabul.

Despite being in debt, the 78-year-old carrier has replenished its fleet with 81 new aircraft in three years, including Boeing 777ER and 777LRs. It now connects New York with 16-hour non-stop flights—the only Indian carrier to do so. Towards the end of this year, it will start similar services to Chicago and Toronto and has plans to start one to Melbourne.

Both Jet Airways and Kingfisher Airlines also operate fairly new aircraft, offering facilities such as flat beds, gourmet cuisine and onboard bars.

"The advantage of Jet, Kingfisher or Air India is their new aircraft, which makes (German carrier) Lufthansa—which has 15-year-old aircraft flying all over India—look like a bad choice," said Nimish Gupta, 36, who works as senior product manager at anti-virus software maker McAfee's Bangalore office and flies half-a-dozen times to Silicon Valley in the US every year.

"Earlier, Singapore Airlines would bring old aircraft to Delhi and Mumbai. They have now upgraded their aircraft. British Airways chose to start its first upgraded business and first class aircraft to Mumbai recently, before anywhere else in the world. It has put the pressure on them to bring positive changes on these routes," Gupta added.

Azran of AirAsia X said cheap labour costs and good engineering and maintenance facilities added to the advantage of Indian carriers. "What you still have (as) a challenge is distribution costs," he added, pointing out that many passengers still book tickets through travel agents rather than online.

Saj Ahmad, a London-based aerospace analyst, said the benefit of cheap labour was negated by poor operational structures. "There are too many top heavy managers (who are) overpaid, little efficiency or streamlining, excess staff per airplane and way too much ground staff—considering less than 1% of the Indian population actually uses air travel," he said.

Dubai-based Emirates runs one of the largest foreign operations out of India, with 184 weekly flights. Majid Al Mualla, Emirates' senior vice-president, West Asia and Indian Ocean, pointed out that Indian carriers have been reporting heavy losses in the past three years.

"They need to look at what they are getting to fill the plane and see how it is impacting their bottomline," he said.

Jet Airways has already received the message. "Increasingly Jet Airways is becoming a network player," Sudheer Raghavan, its chief commercial officer, told analysts in May, referring to flights to Bangkok from India that are now largely fed by passengers from the UK and the rest of Europe. "We will not launch new routes purely for the purpose of expanding because today in the financial situation we are in, prudence outweighs exuberance for growth."

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EXPERT VIEW

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LOW-COST TRAVEL NEEDS GOVT BOOST

COLUMN

Low-cost aviation is all about efficiency and innovation. I took a flight a year ago from Toulouse in France to London on the European low-fare carrier Ryanair. You go from an alternative airport and not the main Toulouse airport. There the airlines pay no landing or parking charges. On the contrary, Ryanair gets €5 (₹297) per passenger from the local municipality because its customers are catching a flight from an airport they wouldn't have preferred. I remember the fare was €27, there was a tax of some €19 and then because I had baggage, they charged €15. The moment you have a bag to check in, it needs more of the airline's resources and the fuel burn increases. So you bring in discipline and cut wastage by charging a passenger with more baggage. You can't exit a Ryanair website without travel insurance. They will ask, "do you want a hotel room?"

In the low-cost space, Ryanair is No.1, Brazil's Goal is very good, and there is AirAsia of Malaysia. I think in India, SpiceJet and IndiGo are both doing a great job. But I think in the pricing, because of the cartel they have got, which has still not come under the Competition Commission of India, they are all putting a minimum price on air fare. That, I think, is totally against the low-cost model of Ryanair and AirAsia—of fierce competition where the customer benefits. For long-term growth, the filling up of the plane is very important. Ryanair has 200 aircraft, it flies 60 million passengers, and a quarter of all Ryanair seats are free plus tax and it has been the most profitable for 10 years. So I think our low-cost airlines are really good, both SpiceJet and Indigo, but they still have not got their pricing right because they are part of the Federation of Indian Airlines and are setting a minimum price, which is actually detrimental to the long-term growth of the industry and to their own business model.

Since 2000, the most important change is that airlines have realized they have to be absolutely cost-conscious, whether it is full-service or low-cost—probably with the exception of Kingfisher Airlines, which got carried away by frills. Jet started JetKonnect without business-class seats. Meanwhile, if you look at the price, when I started Air Deccan in 2003, the oil price was one-third the current level at around $20 (₹926) a barrel, salaries were one-third, airport fees were half, Bangalore-Delhi economy fare one way was ₹12,000 on Indian Airlines, ₹12,100 on Air Sahara and ₹12,200 on Jet. Today, in any airline including Jet and Kingfisher, you can get a fare of ₹3,000-4,000 if you buy the ticket 15-20 days in advance. That is a fact. And IndiGo and SpiceJet are in profit, though costs have risen three times and fares have come down 25%. Clearly, the low-cost model works and the full-service carriers realize this.

Only 0.6% of India travelled by air when Deccan started. Today, around 4% of India travels by air—we are selling 50 million tickets in a country of 1.1 billion. The numbers remain dismal. In Ireland, with a population of five million, 25 million tickets are sold every year. Even in China, some 100 million travel by air. What does it mean? It means that if at all there is to be a future for all of us, it is by expanding the market. If you are boasting you will be a superpower, the government needs to have a strategic vision policy for aviation, for airport infrastructure. It is not about travel, it is about the economy itself. For us to have an airline of the scale of Ryanair or Southwest, I think it will need one more Air Deccan to happen. It will definitely happen, some or the other entrepreneur will start it.

G.R. Gopinath started India's first low-cost domestic airline Air Deccan and is the author of Simply Fly: A Deccan Odyssey *published this year.*