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Headline: Foreign airlines bet on India despite losses DESPITE HIGH COSTS AND COMPETITION,...

# Foreign airlines bet on India despite losses

## DESPITE HIGH COSTS AND COMPETITION, SIZE OF MARKET DRAWS MORE INVESTORS

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**THE NEW ENTRANTS BELIEVE THAT THEY CAN SUCCEED WHERE INDIAN AIRLINES HAVE STUMBLED. KAPIL KAUL OF THE CENTRE FOR AVIATION SAYS INDIAN AIRLINES SUFFERED COMBINED LOSSES OF US$500 MILLION LAST QUARTER ALONE.**

INDIA has become a hot ticket for international carriers since opening its airline industry to foreign investors last year. But the potential of a giant market where only a sliver of the population travel by plane also comes with a catch: airlines in India are vastly unprofitable thanks to sky-high costs and cut-throat competition.

In recent months, Abu Dhabi's Etihad Air announced it was taking a $379-million stake in India's Jet Airways. Malaysia-based AirAsia said it would start a budget carrier with Indian conglomerate Tata Group. Most recently, Singapore Airlines signalled its intention to go into business with Tata for a full-service airline.

They are lured by a vista of seemingly limitless potential in a country of 1.25 billion people. The number of airline passengers is growing by 10-20 per cent annually and is expected to triple to some 450 million trips per year by 2020 as an expanding middle class trades up from slow train journeys to planes in a country that spans thousands of kilometres from Himalayan mountains to sub-tropical coasts.

"It's seen as the last frontier for big growth in airlines. Only 2 per cent of Indians travel by airplane now. There's a huge untapped market," said Dhiraj Mathur, an aviation analyst at PricewaterhouseCoopers in New Delhi.

The new entrants believe they can succeed where Indian airlines have stumbled. Kapil Kaul of the Centre for Aviation says Indian airlines suffered combined losses of US$500 million (Bt16 billion) last quarter alone.

Despite high risks, India's flurry of airline deal-making has made opening its skies the most promising of reforms announced last year to bring new investment to an economy that is growing at the slowest pace in 10 years. Similar liberalisation in retailing has been hamstrung by strict product sourcing requirements and no major foreign investors have applied.

New fliers like Molly Raingam are one reason that airlines are intent on India. The 39-year-old owner of a New Delhi guest house travels to her home state Manipur in India's far northeast at least once a year to see family.

Until about three years ago, her only option was a 36- to 48-hour train journey to a neighbouring state and then a 10-hour bus to her village in Manipur. Now there are direct flights to her state's capital. Flying cuts her travel time to about seven hours, she said, and at about 11,000 rupees ($195) round trip, it's only about 30 per cent more expensive than the train.

Even better, she has a choice of airlines. "I just choose whichever fare is lowest." That price consciousness, however, is one reason that almost all Indian airlines are unprofitable in the domestic market. Debt-ridden Kingfisher Airlines has been grounded since late 2012, unable to pay creditors and employees. Jet Airways and Spice Jet recently announced record quarterly losses of 8.9 billion rupees ($140 million) and 5.6 billion rupees ($88 million) respectively. Some of those losses were due to the rupee weakening, which makes fuel more expensive, but fare wars also took a toll.

After promotional fares in August were as low as 3,900 rupees ($70) for the two-hour flight between Mumbai and New Delhi, local media reported the government was considering price controls – not a ceiling to protect consumers, but a price floor to protect the airlines from their own worst instincts. That policy never materialised, and a big plunge in the rupee in September prompted carriers to raise fares to stem losses. Even without price wars, high costs mean airlines in India struggle. Kaul estimated that losses at Indian airlines totalled $8 billion to $9 billion in the last five years, with flag carrier Air India accounting for more than half of that. In recent years only IndiGo has turned a profit.

"Our cost structure of operating in India is one the highest in the world," said Kaul. India not only has high taxes on fuel but also on spare parts needed to maintain aircraft.

Still, the financial woes haven't discouraged investors from circling.

Owned by the oil-rich Abu Dhabi emirate, Etihad has the deep pockets to sink money into India, which is close enough to its international hub to be considered a backyard, while it waits for a payday. Etihad's purchase of a 24-per-cent stake in Jet was cleared on Tuesday by competition regulators, the last legal hurdle to closing the deal

AirAsia sees another route to profits. The budget airline's CEO, Tony Fernandes, said this summer that the joint venture with Tata Group would focus on low-cost flights to underserved Chennai, Bangalore and Cochin cities in the south when it begins service by late this year or early 2014.

For Tata, India's best known company, entering the airline business is a blast from the past. Air India started out as Tata Airlines in the 1930s before being nationalised in 1953 shortly after independence from Britain.

Tata is simultaneously developing a full-service airline with Singapore Airlines for an initial $100-million investment to be called Tata SIA Airlines. It's another echo, since Singapore Air and Tata in the 1990s sought to buy a stake in Air India but were rebuffed amid opposition to privatisation.

Other deals may be in the works. Kaul expects at least two more announcements of international carriers investing in local airlines in coming months, possibly taking stakes in Spice Jet or budget carrier Go Air or stepping in to rescue Kingfisher.

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"Even I am a little surprised at the level of interest. Then again, India is a unique market. I've always believed that the appetite to lose money in India is the highest in the world."