



AIR INDIA POSTS PROFIT FIRST TIME IN DECADE, BUT STILL NOT OUT OF WOODS

News / Airlines



Air India has reported a modest operational profit for the first time in a decade, two years ahead of the target as per its turnaround plan. This is significant since any profit, even if it is at the operational level, has been generated for the first time since the erstwhile Air India and Indian Airlines merged to create the present behemoth.

Lower fuel prices coupled with improved operational performance are being cited as the two main reasons for this happy state of affairs and airline officials have indicated that net profit could similarly be advanced by two years. Aircraft availability, increased cabin manpower and more aggressive marketing are some other reasons the airline's financials are improving.

Civil Aviation minister A Gajapathi Raju informed Lok Sabha on Tuesday that the airline has turned in an operational profit of Rs 8 crore last fiscal by cutting operational expenses by almost 11 per cent.

Here are five reasons why this milestone in Air India's lifespan is a significant one, but the airline is

not out of the woods yet:

1) **Fuel saved the blushes:** As per data given in Parliament during the first part of the Monsoon Session, Air India may have saved close to 9 percent or about Rs 720 crore on fuel costs alone in 2015-16. Since fuel expenses may have accounted for about 30 percent of total expenses during the fiscal, savings from benign global crude prices helped the airline significantly in showing an operational profit in 2015-16.

Other improvements, though welcome, would not have helped the cause unless fuel prices also helped. In other words, when global crude prices begin to rise, Air India's operating profit will also get squeezed significantly unless it takes giant stride in improving other operational parameters.

The airline is estimated to have flown close to a million more revenue passengers last fiscal at 17.77 million versus 16.88 million in 2014-15. A report in Mint newspaper earlier this year cited the CASK – Cost per Available Seat Kilometer – of India's airlines to drive home the point that fuel prices are make or break, since cost rationalization does not seem to be successful for India's airlines.

2) **Losses pile up:** According to data provided in Parliament, Air India's losses stood at Rs 5490.16 crore, Rs 6279.6 crore and Rs 5859.91 crore in 2012-13, 2013-14 and 2014-15 respectively.

As per Budget Estimates, the airline would have still declared a net loss of Rs 3529.8 crore during FY16 despite being profitable at the operational level. While fuel accounts for the single largest cost head, employee expenses also account for close to 10 percent of total costs. In other words, 10 paise out of every rupee spent by AI is used to pay employee salaries. This, when the airline has already hived off two subsidiaries - one for ground handling and another for engineering - and halved total manpower.

3) **Debt worries remain:** Air India, which accounts for the largest share of Indian airlines' total debt pile, was sitting on borrowings of over Rs 51,000 crore till March 31, 2015. MoS Aviation Mahesh Sharma said in Parliament in March that Air India's total debt burden of Rs 51,367.07 crore includes Rs 22,574.09 crore outstanding on account of aircraft loans.

As per the Turnaround Plan (TAP), the equity infusion by the Government into Air India also includes Rs 18,929 crore for the repayment of the government-guaranteed loans/interests till FY 2020/21. Air India's interest bill alone for FY16 is estimated to be around Rs 3,700 crore!

Since government is the owner of Air India, the airline seems to have a perpetual cushion to fall back on, something no private airline can boast of. So a modest operating profit is good news but provides little relief on the airline's actual financials.

4) **Privatisation:** This government has blown hot and cold over any move to consider offloading the white elephant called Air India. Sources tell us that there is stiff opposition from the top management of the airline over any such move. This can only spell disaster for the airline, which has been guzzling public money at an alarming rate.

Last year, the independent directors on the board of the airline had met minister Raju to convince him about the need to privatise Air India. In March this year, the heavy industries ministry had created a flutter by classifying Air India as 'sick', reviving a discussion on whether the government should get Air India off its hands as its financial situation is not improving despite continuous equity support.

At that time, airline officials had said that there has been some talk of initiating the process of privatisation by starting with two businesses which were earlier spun off from the airline - engineering and ground handling. They had said then that Air India Express could also be considered under this scheme.

A proposal to recommend privatisation of Air India has been discussed informally at several board meetings of the airline - a subject usually taken by its independent directors, but no formal resolution has been drafted in this regard. Now that AI is operationally profitable, time is ripe for at least a discussion over privatisation.

5) Image problem: Air India suffers from an image problem due to service standards, frequent delays and engineering issues. According to DGCA data for March, Air India continued to have top ranking in the complaints' register with 32,518 passengers affected due to various issues like denied boarding, delays and cancelled flights on the domestic sector.

Though the airline has less than half the share of the domestic market compared to IndiGo, the number of people affected due to flight delays alone was more than twice that of IndiGo passengers similarly affected. For its operational performance and therefore revenues to improve, these image issues need to be settled.

The government is committed to spend over Rs 30,000 crore in equity support to Air India as per the Turnaround Plan. Of this, over Rs 22,000 crore is already in.

Now that the airline has reaped the benefits of benign fuel prices and higher aircraft loads to become operationally profitable last fiscal, the government needs to chalk out a detailed future roadmap which should include a discussion on privatisation.

India is one of the fastest growing aviation markets in the world and has immense growth potential for airlines in terms of traffic. The catch lies in profitable operations in an increasingly competitive environment, where controlling costs remains the key.

The government needs to get out of aviation, allow professionals to manage the airline and stop sinking more of public money into Air India.

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