



## Foreign Direct Investment Role in Indian Aviation Market

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**ABSTRACT**

Research paper explains the various growth stages in Indian aviation. An over view of private Air taxi services those bubbled in Indian skies is highlighted. AirIndia disinvestment proposal and the core objective narrated in the paper. Some statistics about Indian Aviation and global scene is explained. Domestic challenges, Focus of Modi government and the first FDI deal in Aviation is also narrated through the paper. Article supports FDI in Indian skies for more liquidity push for faster development.

**KEYWORDS**

FDI, Air taxi operator, Disinvestment, CAPA and ATF

### Introduction

United Progressive Alliance in India had given green signal for foreign direct investment (FDI) to allow 49 percent foreign airline partnership in Indian carriers. Even though foreign partnership is not new to Indian aviation, FDI has once again brought the scrapped 1997 story back again. Middle east airlines Gulf Air and Kuwait Airways enjoyed 20percent share each in the holding company of an Indian private carrier that time. On 17, April same year civil aviation ministry barred all foreign airlines from investing in Indian skies and advised domestic airlines to disinvest any stake held by foreign airlines. Mr. C M Ibrahim was the minister of civil aviation during that time. Industry received that decision to roll back investment with bouquets and brickbats. It was hailed due to the ideological reasons, as the Government was opposed to foreign investment in the Indian aviation sector. They do not want to allow foreign private players to take advantage of the resources of Indian market. It was criticized due to the reason that delay in opening up will slow down the economic fast forward. Tata group had given a proposal with 40 percent equity from Singapore airlines to float Tata-Singapore airlines.

### Overview of Private Air taxi operators

After that many times Indian sky became clearer and cloudier. Some domestic carriers entered in Indian sky, few vanished and some of them went for merger and acquisition.

### Major Airlines busted in Indian Skies

Airline	Fleet	Founded	Ceased operation	License revoked
Kingfisher Airline	64	2003	2012	2013
Paramound Airways	5	2005	2010	2011
Modiluft	5	1993	1996	Nil
Damania Airways	2	1993	1997	nil
Air Mantra	2	2012	2013	Nil
East-West Airlines	8	1991	1996	Nil

Jet Airways, GoAir, Spicejet, Indigo, Aircosta, Airasia are the present domestic players in Indian skies. Except Aircosta, rest all are flying in international routes as well. JetAirways acquired Sahara Airline to form a single entity. The first no flight airline in India, Air Deccan was absorbed by Kingfisher Airline. The former is still goes as a single brand. Whereas the latter failed to expand the wings further in skies.

### Air India Disinvestment

Data shows that growth rate of global aviation market is 15%

and that of Indian market slated to grow at 15 to 20 percent. Unfortunately Indian airlines failed to take advantage of these opportunities due to fund crunch. When the disinvestment of Air India was the discussion during late 90s, government stand was to make it profitable by inducing fund of Rs 4.75 billion in the first phase and then go for public offer of Rs 7 to 8 billion. Vijay Kelkar committee gave a nod for this Tax money infusion. But continuous assistance did not help ailing national carrier. All our economic reforms are reactive than proactive to avert a crisis. As part of reform process government allowed 49percent FDI of non airlines to invest in Indian skies, but there were no takers because only "enactive mastery" will have the guts to take the risk. Airlines complain that the tax structure on Aviation Turbine Fuel(ATF) is taking the major operating costs. So to save, government proposed to allow direct ATF import rights for airlines. This again failed to help, rather put oil companies who are the suppliers of ATF in a fix.

### Indian Aviation Market

India has a huge untapped domestic market. The growing per capita and propensity to fly makes Indian aviation attractive. International Air Transport Association estimates an amount of 140 billion dollars in the next 20 years for Indian aviation to keep pace with the growing demand. National carrier Air India requires 1.32 billion dollars and other private airlines need 1.18billion dollars to escape from the immediate debt. Government is not in a position to fund this huge amount. The alternative left is to push FDI in airlines to get fresh funds. Government need not have to dilute the ideological stand in airline FDI issue. Strict norms can stop exploitation and misuse of resources. They can consider norms for investing a fixed percent of FDI share on ground also to prevent immediate pull out.

### Domestic Challenges

Apart from IndiGo, many of India's budget airlines have been burdened with massive losses for the past few years due to overcapacity and price wars. According to aviation consultancy Centre for Asia Pacific Aviation (CAPA) three carriers - Jet Airways, Air India and SpiceJet - are expected to post combined losses of more than \$1.2 billion in this financial year. It pegged the industry's accumulated losses over the past seven years at \$8.6 billion and debt at \$12.6 billion. Going gets tougher when continuous and long-term flow of capital gets blocked. Under-capitalisation has been the single biggest challenge for almost all domestic carriers. Analysts are of the opinion that many regional carriers in India - MDLR Airlines, Jagson Airlines and Air Mantra - crashed soon after their launch because of a combination of financial problems and policy-related issues.

Some regional airlines failed when they tried to expand their operations. Chennai based airline Paramount Airways is another example of a successful operator in the south which could not survive when it tried to go pan-India.

### Kingfisher Experiment

The standoff by Kingfisher airline and Air India made a dent on the Industry. Airline jobs were once considered to be glamorous. Decent Salary, good public relation and social status were its characteristics. Airline companies used to put the salary in the bank on 26<sup>th</sup> or 27<sup>th</sup> of every month. The unhealthy competition, staff pouching, convoy type route plan and operational financial mismanagement spoiled the airline image. The rate of attrition became very high in aviation. Co existence of National and private air carriers is needed for Indian economy to grow at a faster pace. The air travel is not a fancy it is a necessity and is one of the basic pillars of transport infrastructure. The responsibility of the government is to provide it at an affordable cost to the public.

### Jet airways-Etihad deal

Jet airways -Etihad was the first deal to be announced in April 2013 after the government allowed 49% foreign direct investment (FDI) in Indian aviation companies. Etihad purchased a 24% stake in Jet in Rs 2,058 crore deal. The infusion of foreign direct investment in the Indian aviation sector by an airline company to another airline company can help in economies of scale, growth in traffic at Indian airports and create job opportunities across the aviation and tourism sectors. If executed professionally, the deal can be a win-win situation for both stake holders. Etihad Airways and Jet Airways can combine their network of 130 destinations, with Jet Airways establishing a Gulf gateway in Abu Dhabi. Under the strategic partnership, both airlines can expand existing operations and introduce new routes between India and Abu Dhabi and further to west. Jetairways has a hub in Brussels (Europe) for onward connection to US. This hub is maintained at a high cost. After the Etihad deal, hub can be shifted to Abu Dhabi.

### Modi focus

The new Government of Prime Minister Narendra Modi is expected to provide a strong push to develop 50-100 low cost airports to increase connectivity between smaller towns. This is expected to be supported by a new regional airline policy consisting of a package of incentives and concessions to address the viability challenges that have been faced by airlines seeking to address this segment for the market.

### Conclusion

The Indian economy is going through toughest phases in its growth. GDP growth has nosedived. The situation is equally grim on many other key economic indicators such as inflation which continues to surge upwards forcing Reserve Bank of India (RBI) to maintain its tight liquidity stance. We must recognise the economic reforms. Policy paralysis is not advisable. Government should show the political will to push things through and launch a package of aviation reforms. In all the above cases the biggest problem is the liquidity crunch. Indian aviation as such does not have money to pump. So the alternate is to invite FDI. Let government bring openness and clarity for a good aviation environment.

## REFERENCES

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