

Recent Trends: Issues and Challenges of Indian Aviation Sector

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Abstract: The aviation sector in India has a major role to play in the national life. It has one of the largest and developed air route structure. For its contribution to international aviation facilities, India has a seat in the council of ICAO, an important decision making, fundamentally it was possessed by the government, yet now private entities overwhelm the sector by offering full-service carriers and low-cost services. Prior just couple of Individual could afford the fare of air travel, yet now it tends to be afforded by a large group of individuals as it has become cheaper because of stiff rivalry. An extensive variety of services were identified with air transport like passenger and cargo services, un-scheduled services operators- helicopters and private planes, airport terminal management and sup-port services like maintenance, repair, and overhaul, ground handling, in-flight catering, crew and pilot training are being offered by Indian aviation sector. Colossal advantage has procured by the Aviation Sector by the entry of private carriers, especially from low-cost carriers. Due to the expanding cost Aviation sector is confronting the trouble. India's aviation sector faces the crisis and races against its fastest growing worldwide contenders. Intensification in availability and network connectivity add to the expected improvement in both passengers and cargo traffic. A large amount of public and private investments in aviation infrastructure are required to pour in. The government has started the necessary action to enhance the aviation sector in the country. This paper is about recent trends, issues, and challenges faced by the Indian Aviation Industry.

Keywords: Indian aviation sector, recent trends, issues, and challenges

1. Introduction

Air transport sector is one of the world's greatest contributors to the advancement of modern society. It has made the world a global village. Air transport provides a worldwide transportation network essential for global business and tourism. Air transport plays a vital role in facilitating economic growth, particularly in developing countries. India being a developing country it's the third largest civil aviation sector at present. India has the distinction of having commenced the first airmail flight in the world on 18th February 1911, first flight flew between Allahabad to Naini junction.

After first flight in the year 1911, it took more than 20 years for the country to have its own airline. On 15th Oct. 1932, Tata Sons Ltd., which later become Air India International, commenced weekly airmail service with a Puss Moth aircraft between Karachi and Madras via Ahmedabad and Bombay,

covering a distance of over 1300 miles.

After world word II, as many as eleven private domestic airlines operated in India. Supply-demand was not in balance as the Indian aviation sector was still in a fledgling state.

Till early 1953, nine airlines were operating air services in India namely Deccan Airways Ltd, Airways India, Bharat Airways, Himalayan Aviation Ltd, Kalinga Airlines, Indian National Airways Ltd, Air India, Air International Services and Air Services of India Ltd. Due to soaring prices, mounting salary bills and disproportionately large fleet comprising too many war surplus air-craft, all the airlines were sick, beyond recovery and were making a heavy loss. The financial health of companies declined despite liberal Government support. The government nationalized the airline sector in 1953, with enactment of Air Corporation Act, assets of nine existing Airlines were transferred to two new corporation's viz. Air India International and Indian Airlines.

The liberation of the Indian Aviation sector commenced in 1990 with private sector players permitted as air taxi operators. However, they were not permitted to operate scheduled services. A number of private players commenced domestic operations as air taxi including Jet Airways, Sahara, Jagsons Airlines, NEPC Airlines, East-West Airlines, Modiluft Airlines, Continental Aviation, and Damanica Airways. In March 1994, following repeal of the Air Corporation Act, private carriers were allowed to operate scheduled services and granted scheduled carrier status upon fulfillment of certain applicable criteria. Among the private airlines which started operations with deregulation of the Indian civil aviation sector, only two continued their operations in the country viz. Jet Airways and Air Sahara till 2003, when the Indian Government gradually permitted Air Deccan, Kingfisher Airlines, SpiceJet, Go Air, Paramount Airways and Indigo to commence scheduled air services.

Currently, the Indian aviation sector is tormented with various problems. Reasons are high aviation turbine fuel prices, increasing labor cost and lack of skilled labors, rapid fleet expansion and strong price rivalry among the entities. The significant challenge faced by the Indian aviation indus-try is lack of Infrastructure. Airport Infrastructure should be upgraded. The government had already taken a few steps to improve infrastructure.

2. Issues and Challenges

A. Classification of Indian Civil Aviation Sector

The Civil Aviation Industry can be broadly classified into three categories

- Public players,
- Private players and
- Startup players

There are three public players: Air India, Indian Airlines, Alliance Air. The private players include Jet Airways, Indigo, Go Air, Air Sahara, Spice jet and many more. There are three startups currently they are Air Kerala, Fly hornbill, Star Air.

B. Trends in Indian Aviation Sector

The course of the aviation sector is basically comparable that of an aircraft. Now and again, it takes off for the high skies and on occasion, it plunges down to the ground level. In-between these highs and lows lie the account of the business of its survival, of the new and rising trends that fuel its development. The trends that are driving and will continue driving the Aviation Industry are;

1) It's another passenger out there:

Social networking sites allow users to share ideas, activities, events, and interests within their networks. To make brand value the airline should construct "social" pace as a result of their target marketing, low cost, and the high levels of engagement of their members. Airlines should make strategic to band with the suppliers who can provide them a resource pool of online networking specialists to enhance their brand value and acquiring them a new customer.

2) The passenger's reality is online and offline:

Customer relation refers to all activities related to creating mutual understanding between an airline and its passengers. Customer relations commonly involve the use of both online and of-line services. E-ticketing goes hand-in-hand by selling tickets through websites. Online services include services like web check-in which enhance the ease of traveling and offline services include customer contact center which is used by the customer for their travel-related complaints. Managing between the two holds the way to success.

3) Analytics:

Analytics can be useful in various ways to ensure the service of good quality. This is achieved by identifying and rejecting item offerings, strike away item or services that don't engage clients, foresee customer needs and preferences.

4) Shift-in revenue generation:

The science of revenue management has been attributed to contributes anywhere between 4-8% incremental revenue to an airline's business which adds up to almost all the net profit an airline makes. The auxiliary route is a vital revenue generator. The auxiliary services menu incorporates paying for extra check-in baggage, booking preferred seat and Wi-Fi

connectivity.

5) Increased focus on the regulatory and standardization route:

The final element of international regulation is the International Air Transport Association (IATA). This association of airline companies provided nations negotiating bi-lateral agreements with procedures used to work out tariffs. It also focused on finance and accounting, environmental protection and consumer rights.

6) Consolidation in the aviation sector:

Mergers and acquisitions are the terms used to define the consolidation of businesses. A merger is the merging of companies to form a new entity, while an acquisition is the purchase of one company by another company without forming a new company.

7) The number of passengers traveling by air is on the rise:

With greater competition on the major routes, extensive discounted fares, and availability of more flights, air travel has grown rapidly. The anticipated passenger traveling by 2025 that would double and by a similar time airline operation is expected to triple.

Table 1
 Passenger traffic at a glance Ministry of Civil Aviation

PASSENGER TRAFFIC	UNIT	2017-18	2016-17
Domestic Passengers	Departing Passengers	123.32 million (18.86)	103.75 million (21.77)
Domestic Airline Demand	Revenue Passenger Kilometers (RPK)	117.04 billion (18.65)	98.64 billion (21.82)
Domestic Airline Capacity	Available Seat Kilometers (ASK)	134.54 billion (15.05)	116.94 billion (19.66)
International Passengers	Departing and Arriving Passengers	60.58 million (10.79)	54.68 million (9.84)
Total Passengers (Domestic & International)		183.90 million (16.08)	158.43 million (17.37)

C. Reason for Aviation Boom in India

India's domestic aviation sector almost multiplied to 117 million passengers in 2017 with 100 flights taking off every hour contrasted and 59.87 million passengers with 67 take off in 2011. In addition, they enrolled 18% development over 99.88 million passengers who flew in 2016. Though sustainable development, the Indian aviation sector requires a longer time developmental growth which will be hampered by its infrastructural issues.

1) Foreign investment allowed:

In order to attract foreign investment, the government announced a policy which was de-signed to allow Foreign direct investment of 49% and for NRI fully 100% is allowed to invest in the domestic airline sector. However, deregulation of the domestic market has been accompanied by continued regulation of foreign airlines ownership being prohibited. This

certainly prevented foreign owned airlines competing in domestic markets.

2) *Low entry barriers:*

The possibilities that new firms may enter the sector also affects competition. In the Indian aviation sector, the barriers to entry are generally low leading to numerous airlines starting up. However, there are significant barriers to growth and probability that exists in the form of regulatory limitations, non-availability of resources after startup as airline requires a huge amount of investment for further development.

3) *An attraction of foreign shores:*

Due to increasing fleet and to reduce the competition and make the profit some of the domestic operated airlines expand its operations abroad. Jet Airways and Sahara have gone international, first to SAARC countries, and afterward to South-East Asia, the UK, and the US. Following five years of domestic operation, numerous domestic carriers too will be qualified for fly abroad.

4) *Rising income levels and demographic profile:*

The demand for air travel is highly income elastic. This means that with the growth in the Indian economy, the demand for air travel is also expected to grow. Globalization should continue to boost traffic in the long-term. While the world airline market is growing at an annual pace of 4%, the Asian market is registering 20-30% annual traffic growth in lock-step with the booming economy.

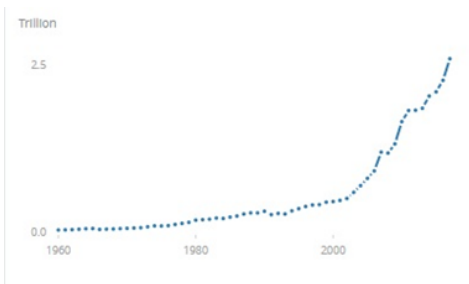


Fig. 1. GDP of India (US trillion), Source: World Bank Group

5) *The untapped potential of India's tourism:*

The modern overseas tourism industry has only flourished as a result of technological improvements in aircraft design that have made air travel cheaper.

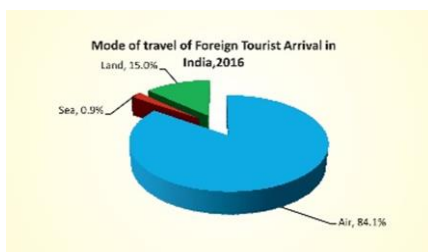


Fig. 2. Mode of transport used by foreign tourist Ministry of Indian tourism

D. *Challenges for Aviation Sector in India*

Structural change in the Indian aviation sector has benefited consumers with lower average prices, more extensive and frequent service and continued technological progress in both aircraft and air-ports. The sector continues to attract considerable attention from economists and policymakers, however, in part because its business practices have been so dynamic in nature and differentiated while airline earnings have been tremendously volatile. However, the significant issue that represents a challenge for the aviation sector in India is infrastructure limitation which is required to be rapidly increased.

1) *Shortage of trained employee:*

There is a shortage of trained and skilled manpower in the aviation sector because of which there is cut-throat competition for employees which, thusly is driving wages to unsustainable levels. Moreover, the industry can't hold talented employees.

Table 2

Personnel statistics of scheduled Indian operators for the year 2016-17. (Source: Director General of Civil Aviation, a handbook of 2016-17)

NAME OF THE AIRLINE	Pilots & Co-Pilots	Other Flight Crew	Cabin Crew	Maintenance & Overhaul Personal	Ticketing & Sales Personnel	All Other Personnel	Total (All Personnel)
JET AIRWAYS	1924	390	3702	2094	1104	6079	16293
INDIGO	2094	132	3880	916	217	7365	14604
AIR INDIA	1378	0	1984	754	4038	3758	11912
SPICEJET	598	0	1214	725	384	3981	6902
GO AIR	337	79	549	374	477	954	2770
VISTARA	168	0	435	79	55	749	1486
AIR ASIA	141	0	315	172	217	396	1241
Blue Dart	64	0	0	138	0	899	1101
AIR INDIA EXPRESS	181	0	516	157	26	193	1073
JETLITE	141	1	298	304	0	10	754
ALLIANCE AIR	116	0	142	0	0	275	533
TRUJET	23	14	35	109	88	176	445
ZOOM AIR	10	0	14	16	25	35	100
QUIKJET CARGO	8	0	0	26	0	60	94
Grand Total (All Airlines)	7183	616	13084	5864	6631	24930	58308

2) *Regional connectivity:*

Though there is a large number of airlines operating still it lack regional connectivity. To provide regional connectivity is one of the greatest challenges confronting the Aviation sector in India. The lack of airports, it's also hampering the growth of regional connectivity.

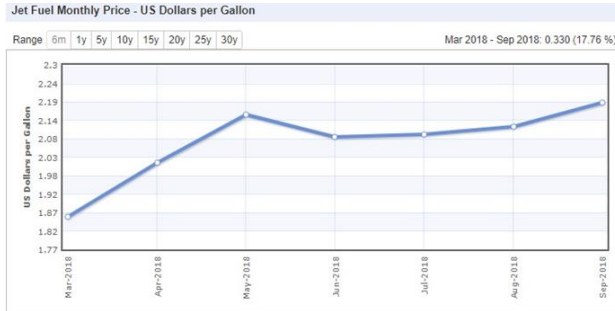


Fig. 3. Capacity vs. Passengers demand in domestic connectivity Director General of Civil Aviation

3) *Rising fuel prices:*

It is estimated that a continued increase in jet fuel cost will account for nearly 45% to 50% of the total costs in 2018. In

recent years, airlines have taken advantages of fuel hedging programs to offset rising fuel prices, which locks the future deliveries of jet fuel price and allows airlines to limit the uncertainty related to future costs.



Description: U.S. Gulf Coast Kerosene-Type Jet Fuel Spot Price FOB

Fig. 4. Cost of ATF in US dollars

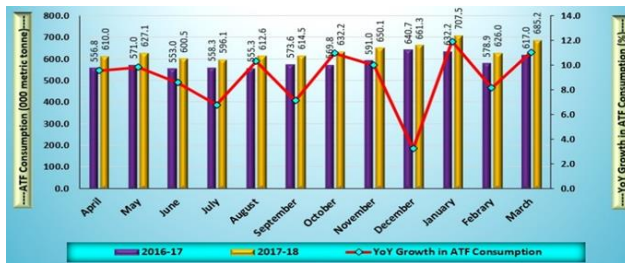


Fig. 5. The growth of ATF consumption
 Source: Ministry of petroleum and natural gas

4) *Declining yields:*

Price or yield is one of the elements that are a key factor to airlines operating profit or loss. Commercial liberalization led to intense competition and reduction in real yields. Nevertheless, the future trends of yields will be influenced by the aspirations of a dynamic market and its fulfillment by airlines through the management of costs in markets that would remain highly competitive.

5) *Gaps in Infrastructure:*

Airport infrastructure and Air Traffic Control (ATC) foundation are insufficient to help development while start has been made to redesign the infrastructure, the outcomes will be visible after some years.

6) *High input costs:*

The input cost is also very high in view of a portion of the reason like withholding tax on interest re-payments on foreign currency loans for aircraft acquisition.

7) *Technology development:*

With the advent of internet and multimedia technology, there was also a perceived threat of business travel being replaced by

Table 3
 SWOT analysis

<p>*Strength Increasing income level Developing tourism Foreign equity Modern fleet</p>	<p>*Weakness High-cost structure Underpenetrated market Infrastructural constraints Deep pockets</p>
<p>*opportunities Expecting investments Huge market size Market growth Geographic location</p>	<p>*Threats Lack of trained pilots Lack of Airports High prices Terrorism</p>

video-based conferences calling and webcast business conferences. However, this has not made any significant effect on business travel yet as physical contact is still considered for doing business.

3. Conclusion

India seeks to pursue a dynamic aviation policy in order to make aviation a force in the social and economic development of the country. Modernization of infrastructure is a major policy objective. Tourism is seen as an instrument to advance the national economy and employment for which aviation plays a major role. It will prompt the development in the aviation sector. To promote although currently there are numerous difficulties which are being faced by the Indian aviation sector yet the development prospect is especially high. The government needs to take action to enhance the Airport Infrastructure and to pour in a few investments also. A few stages are as of now being taken by the Government for the development of the Aviation Industry. Concluding we can state that apart from all the challenges aviation sectors future is brilliant in India.

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