SpiceJet: Its Reincarnation

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ABSTRACT

The worst sort of business is one that grows rapidly, requires significant capital to engender the growth, and then earns little or no money. Think airlines. Here a durable competitive advantage has proven elusive ever since the days of the Wright Brothers. Indeed, if a farsighted capitalist had been present at Kitty Hawk, he would have done his successors a huge favor by shooting Orville down.

– Warren Buffett (2007)

Ajay Singh, the Chairman and Managing Director, had surprised the shareholders by showing a profit of INR 4 billion in the Annual Report[1] of financial year 2016.[1] He had stated therein, "I strongly believe that these accomplishments validate our passionate and consistent focus on delivering an exceptional customer experience." Singh, in an interview with ET Now, (3 months earlier) had said the following:[2]

> *We want to be most profitable airlines in the country. We want to be [the] best airline in terms of on time performance and we want to have least cancellation. This is critical for us. We want to continuously delight our customer.*

Stakeholders, who had experienced the disruption in the operations of SpiceJet, were amazed at the statement of Singh; they were eagerly waiting for the 2017 Annual General Meeting (AGM). It was difficult to reconcile with this statement and that of the Civil Aviation Minister, Raju, who had told the reporters,[3] "The government is here to be helpful and the government can be helpful but the SpiceJet's problem is its finances which it will have to sort out."[3] True, Singh had infused[4] INR 5 billion in February 2015; it was only one-third of the promised INR 15 billion.[4] The company, whose net worth was negative to the extent of INR 6.31 billion, was saddled with a debt of INR 10.28 billion. The civil aviation industry, which had become highly competitive, wondered how Singh will make SpiceJet most profitable, best on time performer, and continuously delight customer.

GLOBAL AVIATION INDUSTRY

In the global arena, market share[5] of the US at 14.9% is the highest; China at 8.7% occupies the second position while India is at a distant ninth place with market share of 1.3%.[5] The growth of Indian aviation industry at the compound annual growth rate (CAGR) of around 20% is much higher compared to the global growth rate of approximately 5% per year[6] for over the past 30 years.[6] Within the aviation industry, low cost carrier (LCC), to which SpiceJet belongs, accounts for 25% of the worldwide market.[7] Of late, according to the International Air Transport Association

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(IATA), rapid expansion in aviation is due to considerable growth in emerging markets[8] while some growth is taking place in developed markets as well.[8] The projected revenue[9] of US$ 746 billion in 2014 was double of that of 2004 (US$ 369 billion).[9] Though the margins were different for different airlines, the industry operated on a margin[10] of less than 3%.[10]

The airlines have two parts in the business–the hard product and the soft product. Selection of aircraft (hard product) by the airlines hardly brings any differentiation. It is the softer part of welcoming the customers and providing seamless experience at all touch points, travel deals, prices and customer service[11] that differentiate them.[11] Airlines, from time to time, offer cheaper rates to promote sales and provide loyalty programs to retain customers. But the customers, worldwide, have hardly any brand loyalty. Warren Buffett[12] had once said about the industry, "However, we have no ability to forecast the economics of the airline industry. Investors have poured their money into airlines for 100 years with terrible results. It's been a death trap for investors."[12] Of late, he seems to have changed his opinion which is obvious from his recent investments[13] in airlines.[13] Observing this, *Business Insider*[14] on February 15, 2017 commented as follows:

> However, even with these headwinds, American, Delta, United, and Southwest remain the world's four largest and most profitable airlines. This is why Buffett has good reason to be optimistic.[14]

INDIAN AVIATION INDUSTRY

Indian civil aviation[15] can be traced back to 1932 when Tata started a freight liner.[15] Tata airline became the first Indian passenger airline in 1933. It became a public company in 1946 and was renamed Air India. In 1953, the Indian government nationalized the company. Next two decades saw a lot of consolidation in Indian skies. The Indian Airlines[16]—the domestic national carrier—emerged as a result of nationalizing eight airline companies, namely, Airways India, Air Services of India, Bharat Airways, Deccan Airways, Himalayan Aviation, Indian National Airways, Kalinga Airlines, and the domestic wing of Air India.[16] In 2007, these two national airlines merged into one entity–Air India which has two subsidiaries named Alliance Air and Air India Express.

With the introduction of Open Sky Policy of 1990, monopoly of national airlines ended with the entry of nine private players (Table 1). Out of these, ModiLuft, Span Air, Damania Airways, East West, Gujarat Airways, and Skyline NEPC closed down within 5 years of their operations due to incurring high financial losses.[17] Air Sahara entered the first LCC service, offering reduced ticket price. Though LCC's (Table 2) accounted for about two-thirds of the domestic aviation market, Air Sahara could not stand long. In 2007, under financial pressures, the airline got sold off[18] to Jet Airways.[18] Thereafter, Captain G R Gopinath launched Air Deccan, the unique selling point (USP) being low fares which were at par with or lower than travelling in a second class air-conditioned rail coach. Air Deccan, too, could not survive and was sold off[19] to Kingfisher Airlines.[19] The year 2005-06 saw the next round of new entrants;[20] IndiGo and GoAir.[20] Later, Vistara[21] and Air Asia[22] (India) entered the fiercely competitive aviation market.[21,22] These airlines, excluding Vistara, operated in the LCC format.

As on date, there are seven national air carriers, namely, SpiceJet, Jet Airways, IndiGO, Air India, Go Air, Vistara, and Air Asia (India). In addition, there are regional carriers named Air Costa,

Table 1: Shaping of Indian Aviation Industry

Year	*Major Milestones*
1953	Nine Airlines existed including Indian Airlines and Air India
1953	Nationalization of all private airlines through Air Corporation Act, 1953
1986	Private players permitted to operate as air taxi operators
1994	Air Corporation Act repealed 1994; Private players can operate schedule services
1995	Jet Sahara, Modiluft, Damania, East West granted scheduled carrier status
1997	Four out of six operators shut down; Jet and Sahara continue
2001	Aviation Turbine Fuel (ATF) prices decontrolled
2003	Air Deccan starts operations as India's first LCC
2005	Kingfisher, Spicejet, IndiGO, Go Air, Paramount start operations
2007	Industry consolidate; Jet acquired Sahara; Kingfisher acquired Air Deccan
2010	Spicejet starts international operations
2011	IndiGO starts international operations; Kingfisher exits LCC segment
2012	Directs ATF import by airlines allowed. FDI of 49% allowed for foreign carriers
2013	Reports biggest ever loss of INR 10.03 billion
2014	All flights were grounded on December 17, 2016. Revival Plan submitted
2015	Singh buys Maran's share in SpiceJet and takes over the management. IndiGo issues IPO
2016	Spice Jet becomes profitable again, registers a profit of INR 4 billion

Source: Complied by the author from YES BANK Ltd. and ASSOCHAM Report, Indian Civil Aviation - At the Cusp of Taking, August, 2015. Retrieved (June 15, 2017). https://www.yesbank.in/pdf/civil_aviation_at_the_cusp_of_taking_off.pdf

Table 2: Indian Aviation Market

Airline	*Promoter*	*Market Share (Domestic)*	*Capacity Share (Domestic)*	*Service Type*	*Fleet Size*	*Aircraft Type*	*Airports*
Air India	Government of India	13.9%	14.6%	FSC	146	Airbus, Boeing	66-D 35-Int
Jet Airways	Naresh Goyal	18.0%	17.1%	Dual	105	Airbus, Boeing, ATR	51-D 22-Int
IndiGo	Interglobe Ltd.	39.9%	41.2%	LCC	126	Airbus-A 320	36-D 5-Int
SpiceJet	Ajay Singh	12.9%	11.7%	LCC	49	Boeing 737 and Q400	39-D 6-Int.
Go Air	Wadia Group	8.3%	17.8%	LCC	24	Airbus-320	23-D

Source: Adapted from SpiceJet's Corporate Presentation to Investors, March 2017, retrieved (April 9, 2017), http://corporate.spicejet.com/Content/pdf/CorporatePresentationMAR2017.pdf

Air Pegasus[23] and Trujet.23,[24] Further, Air Carnival,[25] which will cater to South India and Zav Airways,[26] which will focus on east and north-eastern regions of the country, has been approved by the government.25,26 India is still an underpenetrated[27] aviation market and is witnessing varied