



Air India: The National Carrier Near to Privatization

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Abstract

The transport sector plays a vital role in the growth and development of an economy. The competition has been increased in Indian civil aviation sector after the entry of LCCs. The open sky policy allowed the private carriers to fly in the sky. Before this amendment, the two carriers Air India and Indian Airlines captured the market. An attempt has been made with the help of this study for the evaluation of financial performance of Air India. The study period ranged from 2007 to 2017. The data have been collected for revenue, total expenditure, net profit and power and fuel expenditure with the help of Capitaline Database, India Today and Annual Reports of Air India and compiled in the form of Chart, Graph and Tables. The analysis has been made with the help of various statistical tools like descriptive statistics i.e. highest and lowest range, mean, standard deviation and co-efficient of variation and

person's correlation. The study found that Air India is no more profitable, though its net losses have been decreased in the last few years, but it is in debt trap too. The present study suggested some measures for the revitalization of Air India like disinvestment and privatization.

“AI is nothing more than a crony filling state job programme- it has gotten so bloated, successive inept governments do not know what to do turn it around other than throw good money after bad. It has never really woken up out of its post merger coma to face market realities. While it remains in this lethargic state, covered in political red tape and corruption, management apathy will ensure that AI is going nowhere fast” (*Saj Ahmad, Chief Analyst, UK based Strategic Aero Research*). Air India has been incurring losses and debt trap for last few years. Now, it has been disclosed about AI that the Maharajah is impoverished and is in

a debt trap. It is also true that the government officials have been applying their mind as to how AI can be pulled out of it.

The Indian Aviation Industry has become fourth largest aviation market in the world (*Media India Group report, April 2017*). India held the eighth position three years ago. *According to The International Air Transport Association's Passenger Growth Forecast*, India has moved up two places to become the fourth largest aviation market in relation to passenger growth (April, 2017). The top three market are the US, China and Japan. *IATA Report* states that the big movers in this year as well as in the upcoming years are the emerging markets of India and Indonesia. India has jumped up two places to fourth and continues to close in fast on Japan. Indian aviation sector has wide scope for the development of Indian economy.

DESCENT OF AIR INDIA

The first domestic air route was opened by the Indian State Air Services between Delhi and Karachi in December 1912. The Indian state air services executed this in collaboration with Imperial Airways of the

UK. It was like an inaugural session for airline industry in India. The airlines ran by the few pioneering private players before independence. JRD Tata was among them who started Tata Airlines in 1932. It was renamed in 1946 i.e. Air India Ltd. The government nationalized all eight airlines through the Air Corporation Act, 1953 and formed two corporations i.e. Indian Airlines for the domestic services and Air India for international services. Air India became an iconic airline with exclusive services under the chairmanship of Tata, who served for twenty five years. The Air Corporation Act revoked in 1994 and then the government introduced the Open Skies Policy. This allowed the entry of private players, permitting foreign equity up to 40 percent in the domestic market. It was the real turning point in the history of Indian Civil Aviation Sector. Within a year, a number of new private players like Jet, Air Sahara, ModiLuf, East West and Damania had captured close to forty five percent of the domestic market. In 2007, Air India and Indian Airlines merged into a new entity i.e. National Aviation Company of India Ltd. The airline was renamed as Air India in 2010. Air India became member of the Star

Alliance, boosting international connectivity in 2014.

REVIEW OF LITERATURE

Feng and Wang (2000) evaluated the performance of airlines with the help of financial ratios. A case study was conducted using the example of five major airlines of Taiwan. It was found that performance evaluation for airlines could be done in a more comprehensive manner with the consideration of financial ratios. Total performance was measured in different departments like production, marketing and management department of an aviation company with a purpose to give help to operators in distinguishing the performance of different departments of an airline. A high probability of biased assessment was found in case of non considering the financial ratios in performance evaluation.

Saraswati (2001) highlighted through their study that the Indian aviation sector that showed impressive profits in the pre-liberalization era has been adversely affected since the onset of the government's open-sky policy in the late 1980s. The study gave emphasis on the environmental issues related to the aviation sector in India. It

concluded that the technological conditions, operating conditions, government control, political conditions, legal and regulatory environment all these components of environment played a greater role in the functioning of civil aviation sector in India.

Poongothai, Jayanthi and Rajesh (2014) conducted a study on the performance and trend analysis in the operations of various airlines in the Indian aviation sector. It also threw light on different aspects related to the utilizing capacity of Indian Airlines like Indigo, Spice Jet, Jet Airways and Air India. The study concluded that a smaller size of fleet with efficient management should surely help in overcoming its losses and to face the growing competition.

Angayarkanni and Raja (2015) presented the study to determine the profitability performance of airlines in India. It was an attempt to examine the impact of some selected profitability ratios on return on capital employed of the firm. Cut-off cost, customer services, management quality, better utilization of sources, goodwill and market share were found to be the most important factors which affect the profitability of firms. The study suggested that the firms should increase production

capacity and use advanced technology to cut down the cost of production and wage cost in order to increase the profitability.

RESEARCH METHODOLOGY

Research methodology may be defined as a way to systematically solve the research problem by logically adopting various steps. The research design is descriptive and analytical in nature. The time period for the evaluation of operating efficiency of Air India has been taken from the year 2007-08 to 2016-17. The data has been collected from the Annual Reports, Capitaline Database and Press Reports of airline.

TOOLS AND TECHNIQUES

The data collected from different sources have been analyzed, interpreted with the help of various statistical tools like descriptive statistics i.e. highest and lowest range, mean, standard deviation and coefficient of variation and person's correlation in the light of nature and suitability for the analysis of data. Compiled data have also been presented with the help of graph.

OBJECTIVES OF THE STUDY

- To evaluate the operating efficiency of Air India.
- To make comparison of market share of Air India.

STATEMENT OF THE PROBLEM

The birth of Air India is the birth of civil aviation sector in India. The prime objective of a business undertaking is to earn profits. A business concern cannot survive without having profits. The profits are not only required for the survival, but the development and expansion of an undertaking also depends upon the finance availability. Air India has been facing losses from a number of years considering the fact that its journey is the longest journey in the history of airlines in India. The study is aimed to throw light on the various perspectives relating to its performance.

FINDINGS AND RESULTS

The present study is based on the secondary data collected from the Capitaline Database and then compiled in the form of a table to present data in a specific way. The main finding and result of the present study can be understood from the following tables and graph:

TABLE I FINANCIAL DATA OF AIR INDIA

Year	Revenue (Amount in Rs. Crore)	Expenditure (Amount in Rs. Crore)	Net Profit (Amount in Rs. Crore)	Power and Fuel (Amount in Rs. Crore)
2007-08	15257.47	17483.63	-2226.16	6321.56
2008-09	13479.38	19027.64	-5548.26	7137.31
2009-10	13484.93	19037.37	-5552.44	5080.13
2010-11	14457.62	21322.79	-6865.17	6190.14
2011-12	15901.79	23461.53	-7559.74	8579.24
2012-13	18213.79	23703.95	-5490.16	13426.91
2013-14	20243.90	26523.50	-6279.60	9534.41
2014-15	20659.09	26519.00	-5859.91	8512.89
2015-16	20526.00	24113.00	-3587.00	5700.00
2016-17	22146.00	25789.00	-3643.00	5745.00
Mean	17,437.00	22,698.14	-5,261.14	7,622.76
Maximum	22146.00	26523.50	-2226.16	13426.91
Minimum	13479.38	17483.63	-7559.74	5080.13
SD	3297.24	3305.526	1636.535	2510.398098
CV	18.91	14.56	-31.11	32.93

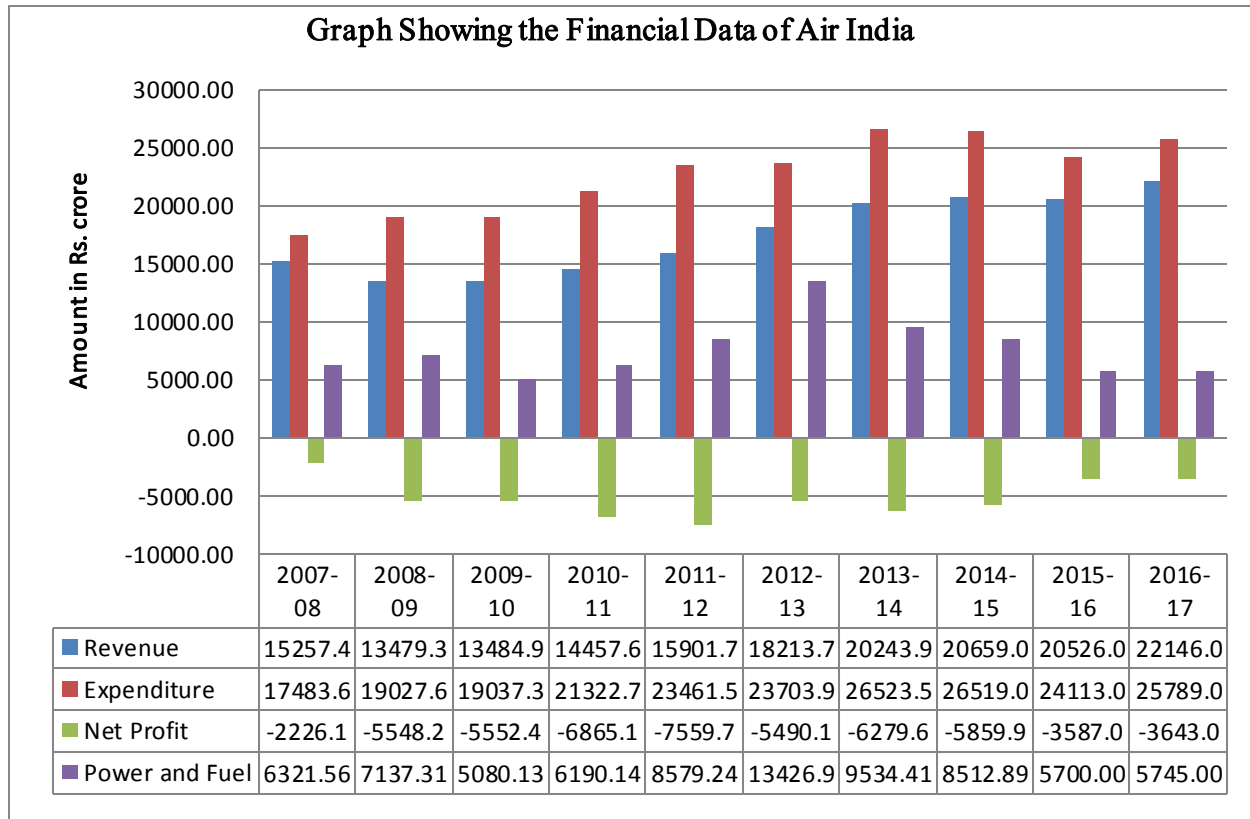
Source: Compiled from Capitaline Database and India Today

Table I shows the financial data of AI. The highest revenue of the airline has been found Rs. 22146 cr. in the year 2016-17. The lowest revenue of the airline has been found Rs. 13479.38 cr. in the year 2008-09. In the beginning of study period, the revenue has been decreased from Rs. 15257.47 cr. to Rs. 13479.38 cr. and then the positive trend has been found for revenue during rest of study period with an average of Rs. 17,437.00 cr. The highest and lowest values for expenditure are Rs. 26523.50 cr. and Rs. 17483.63 cr. respectively. The data for the total expenditure depicts an increasing trend

up to the year 2013-14 and then decreases up to 2015-2016 and increases in the year 2016-17. The reason behind this decrease was cut in ATF prices. The average of expenditure has been found Rs. 22,698.14 cr. The mean value for revenue is less than the mean value of expenditure which clearly shows the poor financial position of the airline. The airline has incurred maximum net loss of Rs. 7559.74 cr. in 2011-12 and minimum net loss of Rs. 2226.16 cr. in 2007-08. The net loss has been increased from 2007 to 2012 and then decreases in 2012-13. In the last two years, the net loss

has been decreased which may be a positive sign for the rehabilitation of Air India. The average of net loss is Rs. 5,261.14 cr. The maximum and minimum consumption of power and fuel has been found Rs. 13426.91 cr. in 2012-13 and Rs. 5080.13 cr. in 2009-10 respectively. The mean value of power and fuel expenditure is Rs. 7,622.76 cr. The data for power and fuel shows that its consumption has been decreasing continuously from 2012-13. It means the proportion of power and fuel expenditure in total expenditure has been decreased considering the fact that the total expenditure has been increasing during the entire study period. The total expenditure of an airline is largely constituted by ATF cost. The ATF prices has been decreased in the last few years, this is why the power and fuel expenditure has reported decrease in the last few years. This cut in power and fuel expenditure leads to the decrease in net loss.

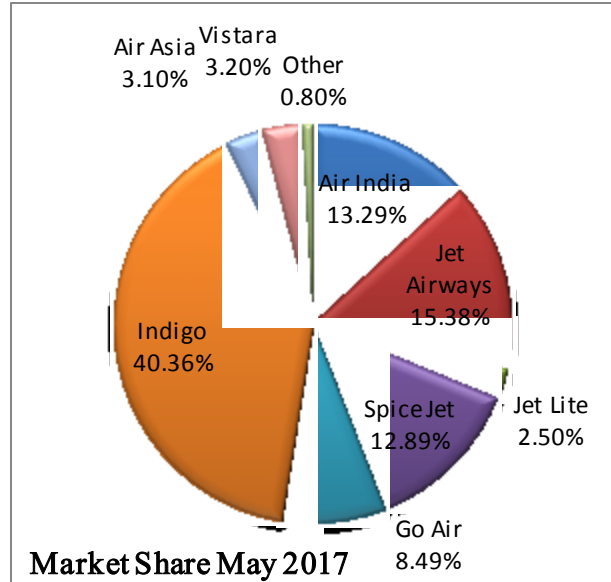
The coefficient of variation of revenue has been found 18.91%. It means the standard deviation of revenue is about 19% of its mean. The coefficient of variation of total expenditure has been found 14.56%. It indicates that the total expenditure is more consistent than the revenue. The coefficient of variation of net loss has been found 31.11%. As the coefficient of variation of power and fuel is highest in figures (32.93%), it may be assumed that its consumption is not consistent. This is why the inconsistency has been found in total expenditure considering power and fuel a component of total expenditure. It may be concluded that the financial position of Air India is not satisfactory as the airline has been incurring losses from a couple of years. The airline should be aimed at decreasing the net losses and finding the other alternatives for its revival.



The above chart depicts the financial data of AI for revenue, expenditure, net profit and power and fuel expenditure from 2007-2017. The data shows the trends for all variables. The figures of the total expenditures are highest than the other figures as shown in the chart. The revenue shows a decreasing

trend for the first two years and then increasing trend for the remaining years. The data for the net loss shows that it has been increasing year after year and then starts decreasing after 2013-14. The chart shows and increasing trend of power and fuel up to the year 2012-13 and then decreasing trend up to 2016-17.

Market Share of Domestic Scheduled Airlines in India



Source: DGCA Traffic Report

The chart shows the difference between the market share of domestic scheduled airlines for the year 2012 and 2017. Indigo Airlines has been found maintaining its market share at top in both the years. In the year 2012, the market share of Indigo was 27.23% and it has been increased in the 2017 to 40.36%. As per the market share data of Air India, in the year 2012, the airline captured 19.29% of total market share and it has been reduced to 13.29% of in the year 2017. When the data of market share is compared, it has been found that the market share of most of the existing airlines has been decreased except Go Air and Indigo. The entry of new LCCs may be the reason behind the decrease

in market share of airlines as some new airlines like Air Asia, Vistara, Jet Lite etc have been entered in the industry and some airlines have left the sector like Kingfisher Airlines. The number of airlines leaving the sector is less than the number of airlines entering into sector, so definitely the market share will reduce for some existing airlines. In nutshells, it can be said that the entry of new airlines in the industry increases the competition in the Indian aviation sector and due to that increased competition some financially poor airline have to face problems. The present situation of Air India is also the result of this increased competition. On one side Air India is facing

problems from the internal system and on the other side, competition has been increased. The national carrier has scored a really sorry figure with a market share of just 13.29%. The performance of Air India has been found poor still may be considered a strong enough as it is struggling for its survival from a decade.

CORRELATION ANALYSIS OF AIR INDIA

The following table shows the relationship between various variables related with the performance of Air India:

TABLE II CORRELATION ANALYSIS OF AIR INDIA

		Revenue	Expenditures	Profit	Power and Fuel
Revenue	Pearson Correlation	1	.887**	.142	.327
	Sig. (2-tailed)		.001	.716	.390
	N	9	9	9	9
Expenditures	Pearson Correlation	.887**	1	-.332	.445
	Sig. (2-tailed)	.001		.382	.230
	N	9	9	9	9
Profit	Pearson Correlation	.142	-.332	1	-.285
	Sig. (2-tailed)	.716	.382		.458
	N	9	9	9	9
Power and Fuel	Pearson Correlation	.327	.445	-.285	1
	Sig. (2-tailed)	.390	.230	.458	
	N	9	9	9	9
**. Correlation is significant at the 0.01 level (2-tailed).					

Source: Compiled with the help of SPSS.

The above table shows the correlation between various variables of Air India. If the correlation between revenue and expenditure is considered, a high degree positive correlation (.887) has been found. It shows the clear relationship between the revenue and expenditure of the airline. A low degree positive correlation (.142) has been recorded

between the profit and revenue of Air India. Moderate degree correlation is shown by the table between the revenue and power & fuel (.327). The relationship between profits and expenditure has been found as moderate low degree negative (-.332). It means both are interlinked with each other negatively. Power and Fuel has a moderate low degree

positive correlation (.445) with the expenditure and a low degree negative correlation with the profit (-.285).

CONCLUSION

The study has been made to evaluate the financial performance of AI. The civil aviation sector in India has seen a tremendous change in the last few decades. As far as the performance of airlines in India is concerned, Air India must be on the top as it was the first incorporated airline, but it has recorded very sorry figures with huge losses and debt trap in the last ten years. No doubt, the government of India is trying at their best to revitalize AI. A number of proposals have been made for it, but no proposal found suitable for its revival. With the passage of time, Low traffic, overcapacity, poor yields and high unit cost have become obstacles in the growth of airlines in Indian Civil Aviation Sector. Due to this, some less efficient airlines had to merge or shut down their business. Meanwhile, AI, which was earlier a profitable concern, had begun to decline. There are so many goofs which have been made by this airline. It includes the acquisition of 111 aircraft and 68 aircrafts from Boeing, in spite of the poor financial health, merger of Air India and

Indian Airlines in 2007, irregular leasing of aircrafts and sale of five Boeing 777-200 long-range aircraft to Etihad below cost price. Now it is the right time to take strong decision for the AI, disinvestment and privatization may be the solution, reason being, the total debt is too high, it is not possible to get rid of it. An orderly and strategic disinvestment can only save AI from this debt trap and losses.

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