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Research Article

EMERGING SCENARIO OF INDIAN AVIATION SECTOR FACING ISSUES AND CHALLENGES IN ECONOMY

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ABSTRACT

This research paper studies on the structure, issues and challenges of Indian aviation industry and impact on economic growth. The milestones and major issues faced by the companies in Indian aviation industry are discussed. The monopoly of public sector may have ended, after entry of private players in the airline industry, but the industry growth is restricted by tax structure, lack of infrastructure, cartel formation by public sector oil companies, lack of vision by the government, poor regulation and management issues of companies. There are few factors such as entry of Low costs carriers (LLC), modern airports, vision of the new government regarding tourism and transportation, foreign direct investments, cutting edge technology, and vision of regional connectivity are driving the industry towards transformation. Industry has faced many challenges and still it is going on. Many new players are entering into this market. Policy change such as 49 percent investment through foreign direct investment (FDI) is changing the face of the industry. From the analyst point of view though this market is facing lot of issues and challenges it is growing at the rate of 18 percent per year. Many factors are contributing to this growth such as increase in disposable income of the population, industrial growth in the country or change in government policies such as FDI. From this perspective Indian market is lucrative. Since few years most of the Indian population is moving from lower middleclass to upper middleclass. They are gaining capability to spend and upgrade their lifestyle. This is providing opportunity for low cost players to tap the market share. Indian Aviation Industry research and analysis is a huge topic to study. Indian aviation market is very competitive. Various players are struggling to fetch the profit. Most of them are facing various problems. There are issues with operations, government policies, taxation and huge investment to be brought in to start the business.

Last decade saw the Indian Airline industry grow at a breakneck speed. The industry experienced a drastic increase in number of passengers, driven by privatization of aviation industry and introduction of low cost carriers like Deccan Airlines, GoAir, SpiceJet etc. Infact, Indian Aviation Industry was one of the fastest growing Aviation Industry in the entire world. Economic growth and increasing link with global businesses resulted in a dramatic increase in passenger traffic. However, the current global economic slowdown and dramatic rise in aviation fuel prices continues to negatively impact the Aviation Industry across the world. The following report will brief the reader on overview and challenges faced by the Indian Airline industry.

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INTRODUCTION

Indian aviation industry is among the top 9th aviation industries of the world. It has shown high growth trajectory with a size of around US\$ 16 billion and is poised to be the 3rd biggest by 2020. India aviation industry promises huge growth potential due to large and growing middle class population, rapid economic growth, higher disposable incomes, rising aspirations of the middle class and overall low penetration levels. Civil aviation industry in India is experiencing a new era of expansion driven by factors such as low cost carriers, modern

airports, and foreign direct investments in domestic airlines, cutting edge information technology interventions and growing emphasis on regional connectivity. Civil aviation sector has been growing steadily registering a growth of 13.8% during the last 10 years. After a period of drastic growth, Indian Airlines is now gripped with challenges that are also impacting the industry across the globe, including high Aviation Turbine Fuel (ATF) prices, rising labor costs, shortage of skilled labor, excess capacity, huge debt burden and intense price competition. Healthy profits and increasing passenger traffic

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saw airlines raising significant amount of capital from Financial Institutions and Banks to fund their aggressive expansion plans. Banks also were liberal in lending airlines.

Liberalization on Aviation sector followed a rapid transformation of Indian Airline Industry which has gone from being a government-owned industry to an industry which is now being dominated by the privately owned airlines, offering both full services and low cost carriers. The first low cost airline, Air Deccan was launched in the year 2003 with the key objective to increase their reach to a largely untapped middle class segment. Low cost carriers were primarily driven by the increasing per capita income, improved connectivity and affordability. Supportive Government initiatives and increasing private and public investments further boosted the industry. However, airways still forms only a small part of the overall transportation services in India, with annual passenger traffic of around 96 million in 2007, compared to 6 billion passengers carried by railways in the same year.

ATF prices now form around 80% of the total operating costs of Airline Industry. The industry across the world continues to be plagued with high ATF prices which have demonstrated the inverse relationship between airline stock prices and fuel prices. ATF prices have almost doubled over the last year. Almost all Indian carriers are also feeling the heat and are desperately resorting to measures like cutting routes, increasing fuel surcharge, promoting the use of e-tickets and charging for food items to reduce their losses. Skyrocketing ATF prices, depreciating rupee coupled with global recession has directly impacted the Indian Airline Industry. The industry reported a \$10.4 billion loss in the last year. Increasing air fares have worked against the logic of increasing profits, as it has resulted in decreased air traffic. Besides focusing on designing fuel efficient engines, aircraft manufacturers like Boeing and Airbus, along with OEMs are developing sustainable bio-fuels which will give them some relief from the vulnerability of profits due to consistently rising fuel prices. Driven by the drastically increasing passenger traffic over the last 3 years, almost all Indian airlines build their capacity assuming the growth would continue over the next few years. Several new aircrafts were bought within a short span of time which resulted in excess capacity of around 15% to 20%. Aircrafts ordered during good times are being delivered during recession. The Indian Aviation sector has always been facing infrastructure bottlenecks, because there is no scientific methodology for capacity assessment and its economic impact. There is a need to assess capacity requirements for each airport in advance and to plan for its commissioning on required time. The problem of capacity shortage arises because there is no system of capacity assessment of the existing terminals. And therefore, there is an immediate need to develop the methodology for assessment of the existing capacities of the airports and to make scientific traffic forecast to assess future capacity requirements. Since there is long gestation period and therefore the capacity cannot be added overnight, it has to be planned and construct well in advance.

The market has been strongly supported by the government and private sector participation, which fueled domestic and international passenger arrivals and acted as catalyst for the overall 87 industry growth. Availability of skilled manpower along with favorable business environment will position India

as one of the most attractive investment destinations in the coming years. According to our latest research report "Indian Aerospace Industry Analysis", India is the 9th largest aviation market in the world.

Objectives

- To explain the structure, issues and challenges of Indian aviation industry and their impact on economic growth.
- To study whether the existing capacity meets the requirement of passengers as far as their responsiveness to meet, comfort, convenience etc. as defined in the level of service to be provided/being provided is concerned
- To study whether the existing capacity meets the operational efficiency of all systems.
- To find the practices being followed in one of the world class airport and compare these practices with the Indian practices
- To assess whether the existing infrastructure meets need of today
- To assess new players from the consumer point of view on criteria such as price, brand recall, time of arrival or departure, ease of booking and service etc.

LITERATURE REVIEW

One of the major highlights in 2016 for the global aviation sector will be the aviation reforms in India. This has been revealed by OAG, the Official Airline Guide, one of the market leaders in aviation intelligence, information and analytical services. The aviation sector is one of the fast growing sectors of Indian economy. Tony Tyler, Director-General and CEO of International Air Transport Association (IATA) has stated that the global world is focusing on Indian aviation, starting from manufacturers, businessmen, airlines, global businesses, tourism boards to individual travellers and shippers. According to him, if there is a common goal among all stakeholders in the aviation sector of India, a bright future can be expected.

The compound annual growth rate (CAGR) of total aircraft movements was 3.3% and of passengers 5.6% during FY11 to FY14. In the next five years too, in terms of the aircraft movements, passengers and freights, the aviation sector is expected to grow, according to the Airports Authority of India (AAI). The job market in this sector is also expected to improve in 2015 with a number of new airlines coming up. Globally, it stands ninth in the civil aviation market. It ranks fourth in domestic passenger volume. It has been reported that by 2020 the civil aviation market in the country will become the world's third largest and is expected to be the largest by 2030. This sounds really good.

From an over-regulated and under-managed sector, the aviation industry in India has now changed to a more open, liberal and investment-friendly sector, especially after 2004. The civil aviation sector in India has moved into a new era of expansion. Some major factors contributing to this are:

- Strong economic growth
- Entry of low cost carriers (LCC)
- Increased FDI inflows in domestic airlines
- higher disposable incomes

- Increased tourist inflow
- Cutting edge information technology (IT) interventions
- Modern airports
- Sustained business growth and
- Supporting Government policies

Some major threats

- A global economic slowdown negatively impacts leisure, optional and business travel.
- The continuous rise in the price of fuel is a major threat.
- A terrorist attack anywhere in the world can negatively impact air travel.
- Government intervention can lead to new costly rules.
- Operation of new airlines

Opportunities

- Offers Aircraft manufacturing
- Improvement of Airport infrastructure
- Airport and ground support equipment
- Maintenance Repair Operations (MRO) facilities
- Ground handling services
- Trained manpower
- Air cargo and fuel hedging etc.

Problems facing the aviation sector

- High operational costs
- High cost of aviation turbine fuel
- High service tax and other charges
- Shortage of maintenance facilities
- Competition from foreign airlines
- Congestion at airports
- Lack of qualified pilots and technical manpower etc.

Civil aviation minister Ashok GajapathiRaju said that in 2015, six airlines would start operations. There is no threat in launching of new airlines even if most of the airlines are reported to have incurred losses and a few are struggling to stay afloat. Even while, the state of the existing domestic airlines is not impressive in the sense that a few of them remain in debt, aviation professionals and investors are not hesitating launching new airlines on regional and pan-India routes.

The seven major airlines that India has at present are Air India, IndiGo, Jet Airways, SpiceJet, GoAir, Air Costa and AirAsia India, in which around 60 million domestic passengers travel annually. In 2014, we saw the launch of AirAsia India. AirAsia is the first foreign airline to set up a subsidiary in India and is an Indo-Malaysian low cost carrier. In 2015, the first new airline to take off is Vistara, based in New Delhi. It commenced operations on January 9, 2015. This Indian airline, a joint venture between Tata Sons and Singapore Airlines, operates 14 daily flights with three Airbus A320 aircraft. Among other start-ups preparing for launch are Air Pegasus, Air One, Flyeasy, Premier Airways. Air Pegasus is promoted by Bangalore-based ground handling firm Deccor Aviation, Air One runs charter services, Flyeasy will be a regional airline with Bangalore as its base, and Premier Airways will headed by NRI engineer UmopathyPinaghapani and slated to launch in mid-2015.

The launching of the new airlines can be an aviation boom in the country as it will lead to an increase in the number of flights, lower prices, more demand for ground staff and trained crew, including a rise in finance and leasing activities. However, the real challenge of the Indian aviation industry is to manage the unprecedented growth of air traffic with safety. The increase in air traffic has raised the demand for aircrafts. But at the same time, it has also posed a problem of modernizing the airport and air navigation infrastructure so that safe, efficient and orderly operations are ensured. There is an urgent need to study the causes of the issues and address them so as not to obstruct the growth path of the aviation sector.

Indian aviation industry is dominated by the Low Cost Carriers (LCC). These players can be classified into three major categories.

Public Players

1. Air India
2. Alliance Air- Air India Regional- LLC

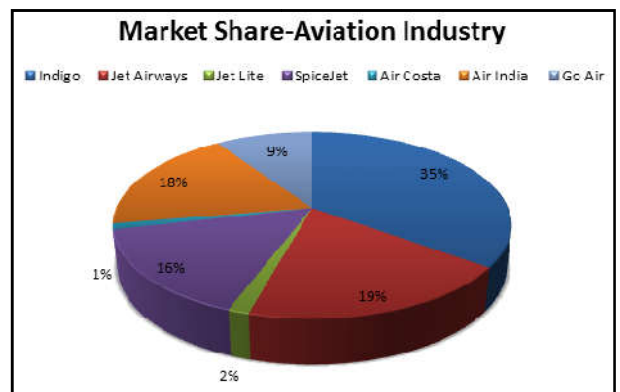
Private Players

1. Jet Airways
2. Indigo
3. Spice Jet
4. Go Air

Also in 2014 the industry has saw entry of five new players. These new players are

1. JET Etihad deal has been finalized (FDI)
2. Tata-Singapore airlines Ltd-VISTARA
3. Air Costa (Part of LEPL Group)
4. Tata-Air Asia Ltd
5. Air Pegasus Ltd

These are the five new players in the industry. They have different strategies to tackle the market. Players in Indian Aviation Industry are fighting to gain maximum market share. Domestic market is dominated by LLCs such as IndiGo and SpiceJet. IndiGo is the only domestic company which has shown all time profits in its balance sheet. At the time of crisis Indigo sustained itself while gaining profits. It is India’s most preferred LLC. According to analysis presented by Business Standards Indigo retained at top position followed by Jet Airways. This analysis was at the end of November, 2015.



And we should remember that even today, access to aviation is still a distant dream for the poor and the lower middle class

sections of its vast population. So there is a large untapped potential for growth in the industry as well. It is necessary for the stakeholders to engage and collaborate with the policy-makers to implement efficient and rational decisions that will shape the future of the aviation industry. With the right policies and a continued focus on cost, quality and passenger interests, India would definitely be able to realize its vision of becoming the third largest aviation market by 2020.

METHODOLOGY

Information Gathering & Preliminary Study After studying various journals, magazines and other literature which provides information on aviation industry (provision of capacity), detailed study was undertaken.

Qualitative Research Technique – “In Depth telephonic Interviewing through Survey” Qualitative Research Technique – “Through Survey” has been followed. Questionnaires after pilot survey were designed to assess the various time parameters etc. required for developing the capacity assessment model. Some of these are highlighted below:-

1. **Dwell Time:** The time spent by the passenger in a facilitation area is called dwell time of Passenger in that area. This time includes waiting time in the queue, service time and the idle or other time (if any) in that area.
2. **Service Time:** Service Time is the time taken to process a passenger by the regulatory agency at a manned counter. This does not include waiting time in the queue.
3. **Level or Quality of Service:** It is an assessment of the conditions and operating characteristics of any subsystem of airport facility at a particular level of demand or user volume. This definition considers both the demand and supply aspects. As the demand fluctuates, so does the level of service, which combines both quantitative and qualitative assessments of relative comfort and conveniences.
4. **Capacity:** A variable measure of throughput or system capability related to the level of service being provided.
5. **Dynamic Capacity:** Dynamic Capacity refers to the maximum processing or flow rate of passengers through a sub system per unit time i.e., dynamic peak hour capacity of an area (say Check-in, Immigration and Customs etc.) is the number of passengers processed per hour (during peak hour).
6. **Sustained Capacity:** It is used to describe the overall capacity of a subsystem to accommodate traffic demand over sustained period within the space and time standard of a particular level of service. It is, thus, a measure of combined dynamic and static capacities of the processors, reservoirs and links.
7. **Declared Capacity:** The limiting capacity and capacities, in numeric term on individual facilities and resources, notified to the appropriate bodies to be used in preparing the flight schedules.
8. **Peak:** It is the highest concentration of traffic, whether in terms of aircraft, passengers, or ground access vehicles, that an airport system has to handle within a particular period of time.

Historical data for T3 terminal of IGI airport for the last 5 years for both International and Domestic flights operating through

this terminal to take into account the trend by taking Geometric Means of coefficient of Variation to develop the Model /Norms. Peak hour to peak day ratio etc (Study carried out by AAI for this purpose during literature review was also taken into account).

The survey protocol included the instructions that were followed for each respondent, to ensure consistency for increasing the reliability of the findings. Passengers were requested to told the time spent in each entry/exit point of various areas viz. terminal building, check in, immigration, customs, security hall and boarding on the departure side and aero bridge, immigration, baggage claim and custom areas on the arrival side. The compilation and analysis of all the survey data were done through “In House Computers”. For estimation of static capacity the measurement of various usable areas, counters and queue space etc. were done and the number of passengers who could be conveniently accommodated in each area was observed. In addition, the number of passengers at each counter handled by service provider was also estimated.

Stratified Random Sampling – Sample Size The total population of the respondent comprised of 350 passengers.

Collection of Data: The respondents as mentioned in the proceeding paragraphs were explained the purpose of research and that their response will be kept confidential. However in few cases follow up questions were posed to ensure that the respondents/interviewee provided complete set of information. The key data was summarized immediately following the telephonic interview.

RESULT AND DISCUSSION

India has very high potential in the aviation Industry but still it is going through tough time. Indian aviation Industry has high growth rate as disposable income of the people is growing and most of the people tending to upgrade their lifestyle.

Airline industry in India is very competitive and price conscious. Most of the people look for the price and very least look for the brand. There are very few people who are loyal customers of the airlines. Also most of these are high class business persons. People follow the promotional ads of the airline and look for the low price carrier. Now days Spice Jet is offering tickets at very low price. They are promoting their campaign as “Less than train fare”. To give lowest price possible these airline companies are looking to cut the costs. Along with these they have to function at very less margin. Indian consumer is addicted for the promotions. Airline companies have to update their promotional and marketing strategies time to time. The airlines sector is one of the most challenging sectors of the economy. The government must take progressive stand, rationalize the tax structure, and play supportive role to strengthen the competitiveness of the private players. The monopoly of public sector oil companies should be curtailed and private players should be allowed to supply fuel to airlines. Attracting foreign investment and alternative ways to infuse equity should be explored. The management efficiency and talent is one of the most important aspects of the airline sector. Indigo has shown that financial discipline and a dedicated team can turn out profits in challenging operating environment.

LIMITATION OF THE STUDY

The research study is limited to the geographical boundaries of some states. Only some airlines brand and few customers are considered in the research. The study undertaken is sufficiently broad in outlook and wider in coverage as regards the subject matter. All necessary care has been taken to reduce any kind of bias at all bench. Although utmost efforts were taken for minimize such errors by cross-verification in the field of study. Since the study was limited in airline services and other state domestic airline service were not covered.

CONCLUSION AND RECOMMENDATION

Indian Airline Industry was one of the fastest growing Airline Industry across the world during the last decade. However, skyrocketing fuel prices, economic slowdown, slashed corporate travel budgets over the last 3 years has forced all Indian Airlines to rethink their business model. Excess capacity build-up and poor infrastructure continue to plague the industry which is also experiencing a decline in passenger traffic at the same time. Mergers, liquidation and consolidations seem to be necessary. Improving energy efficiency of engines, developing infrastructure, increasing regional connectivity will definitely have a positive impact on the industry. Low-cost carriers Use just a few types of aircraft, a strategy that cuts training and maintenance expenses. Another way to simplify operations is modifying the hub-and-spoke model, which uses designated headquarter airports for transfers. Traditionally, the big airlines have sent many of their flights through hub airports at peak business-travel hours. That way, since carriers typically charge heaps more for business fares, they can get more revenues per flight. But many experts argue that it's time to give up on that model - especially as low-cost carriers increase service along heavily travelled routes. The inheritance carriers have long had an unusual, almost incomprehensible pricing system. However, these days, with the Internet allowing travelers to shop for the cheapest tickets easily, and low-cost airlines offering uncomplicated set prices, traditional carriers have to follow suit or risk losing more and more passengers. Most of the industry's improvement efforts have focused on whittling down costs. However, boosting revenues also needs to be a priority. After all, people are willing to pay more if they believe they're getting more value.

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