

Jet airways pvt ltd finance essay

Finance



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Executive Summary & Introduction

Jet Airways Pvt. Ltd. was founded in 1992 as an airline company. At the time of incorporation, there were two shareholders of the company, P. V. V Chalam and Anita Goyal. In 1992, these shares were transferred to Naresh Goyal as he is the owner of parent company of Jet, Tailwinds. In July 1996, Jet Airways became a deemed public company. In 2001, the company was reconverted into a private company and in 2004, Jet Airways became a public company. In 1993, Jet Airways approved foreign collaboration proposal for investment in Tail Winds in the proportion of 60% by Naresh Goel, 20% by Gulf Air and 20% by Kuwait Airways. Tail Winds in turn held 100% equity capital of Jet Airways. Owing to Government's policy on foreign equity and NRI/OCB equity participation in the domestic air transport services sector, Ministry of Civil Aviation (MoCA) directed Jet Airways to divest Equity shares held by foreign airlines, either directly or indirectly. As a result, in 1997, Naresh Goyal acquired 20% Equity Shares that were held by both Gulf Air and Kuwait Airways, respectively. This way he became 100% owner of Tail Winds and he currently has ownership of 99.99% of Equity Share capital of Jet Airways. The executive management team of Jet Airways consists of professionals with considerable experience in airlines and similar industry in India and abroad. Naresh Goyal had set up Jet Airways as a full-service flight as he wanted to give competition to Indian Airlines. In 2005, Jet Airways filed its draft Red Herring Prospectus with SEBI to get into capital market. The company decided to issue 1.72 crore equity shares of Rs. 10 each for cash at a price to be ascertained through book-building process. It was learnt later

that value of each share would be INR 870. The company wanted to use the IPO to fund its international expansion plans. Jet Airways made an announcement in 2006 that it will buy Air Sahara for USD 500 million in an all-cash deal. However, the deal did not materialize in June 2006. Later in April 2007, Jet Airways decided to buy Air Sahara for USD 340 million and renamed it as JetLite. The company did one of the largest lay-offs in history of Indian aviation, by laying off 1900 employees in 2008. Later these employees were asked to return to work on the intervention of Civil Aviation Minister, Praful Patel. Jet Airways launched its low-cost brand, Jet Konnect to cater to the sectors that had 50% load factor to increase it to 70%. In 2010, the market share of Jet Airways in terms of passengers carried was 26. 9%. This made the airline market leader in India. Jet Airways merged the JetLite brand into Jet Konnect on 25 March 2012.

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Recent Capital Issuances-Mode & Quantum

The recent capital issuances of Jet Airways are given below:

Year	Mode	Amount to be Raised
2009	Amount to be raised by private placement of shares with qualified institutional buyers or by Global Depository Receipts (GDRs), American Depository Receipts (ADRs) and Foreign Currency Convertible Bonds (FCCBs)	\$400 million
2010	Jet Airways looked at the possibility to raise \$400 million through a share sale to foreign institutions and has also approached RBI to relook at some of the external	

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commercial borrowing (ECB) guidelines for raising funds. The company had also sought the government permission to dilute up to a 20% stake but Naresh Goel did not approach to any investor, as existing regulations did not allow it. The ministry had asked Jet Airways to bring foreign direct investment (FDI) in the company in three years' time. \$400 million

2011 Foreign Investment Promotion Board (FIPB) had rejected the airline's request for a relaxation of the foreign direct investment (FDI) limit of 49% to be able to get the funds in. The civil aviation ministry had put two conditions to Jet's fundraising plan. First, the carrier must bring down its FDI level within the sectorial cap of 49% in three years after the QIP. The money from the QIP would have enabled the airline to spend on fleet and route expansion and also cash in on the opportunity to hedge against rising oil prices. As per an analyst with a domestic research firm, in order to hedge one need certain margins for which one need cash. With QIP nowhere in sight, Jet would not be able to make use of this opportunity. The analyst said even if the FIPB met its request, a QIP would not be possible at the current share price, which has come down from Rs900 per share in November to Rs610 per share on 27th January, 2011. Second, the control of the airline should not be in foreign hands. Bringing down the FDI level was not that easy as Naresh Goyal held 79.9% in Jet through Tail Winds, which is registered in the Isle of Man. Foreign institutional investors held 6.55%, domestic institutional investors 9.19%, retail investors 3.35% and corporate bodies 0.91% stake in the company. Jet had sought an exception to these rules, which was turned down by the FIPB. Jet was trying to raise funds for through qualified institutional placement (QIP) till then but the proposal was not accepted due to regulatory hurdles. As the market in this year was not good

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for fund raising, in June Jet Airways had put on hold plans to raise funds from the market on rising fuel price and low investment appetite in the sector. \$400 million

2012 In January, India's aviation ministry recommended the government allow foreign airlines to buy stakes of up to 49 percent in Indian carriers. Foreign airlines are currently barred from buying into Indian carriers, though foreign investors can hold a cumulative 49 percent. In February Jet Airways had sought government help to secure additional working capital loans from banks and an extended credit period from state-run oil marketing companies. In April, the Center rejected a proposal by Jet Airways to borrow almost \$700 million from the Bank of Oman for " general corporate purposes". It has also turned down the airline's plan to borrow from an associate or overseas subsidiary. In the same month, the Reserve Bank of India gave its approval to the airlines to raise up to \$1 billion through external commercial borrowings (ECBs) to meet their working capital requirements for one year in line with the Union Budget 2012-13 proposal to provide the much needed financial lifeline to the aviation sector. Jet Airways was trying to raise \$400 million via equity to repay its debt for the past few years. But it has been unable to do so because of weak investor interest in the market. In July 2012, Jet Airways (India) Ltd. was continuing to look at raising funds via a rights issue of shares. In August, Jet Airways planned to sell and lease back some planes to reduce debt by about \$400 million. On 15th September, the Union Cabinet allowed foreign carriers to buy up to 49 per cent in the domestic airline companies.\$400 million

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Objectives of Capital Issuance

Jet Airways issued Initial Public Offering (IPO) for the first time in 2005. IPO refers to the first time sale of stocks of a private company to the public. The main objective of issuance of IPO is accumulation of substantial and targeted amount for either opening a new company or expanding an existing company. IPO pools investment of stock market investors and invests in the building and operation of a company. The shares held by the investors give them rights of the company and to its future profits. The process of underwriting helps to determine the type of security to issue, offer price and best time of introduction into the market. The IPO was launched by Jet Airways Limited to promote its brand name, raise capital and pay-off outstanding debts. The issue price of Jet Airways IPO was fixed at Rs. 1, 100 per share. Soon after the introduction of the Jet Airways IPO, it was subscribed 16.2 times. The bidding for the 100% book-built issue of the IPO of the Jet Airways was opened on 18th February 2005 and closed on 24th

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February 2005. The IPO of the Jet Airways offered 17.27 million shares. Alternatively, it also offered 20% of the expanded equity. The Jet Airways IPO, was subscribed 1.5 times in the first 10 minutes of introduction. The IPO had a price range of Rs. 950 to Rs. 1,125. The shares were then listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). Jet Airways reserved 1,200,000 equity shares for its employees at the offer price and 16,066,801 equity shares were kept open for subscription by the general public. The IPO page of Jet Airways (India) Ltd. captures the details on its Issue Open Date, Issue Close Date, Listing Date, Face Value, Price band, Issue Size, Issue Type, and Listing Date's Open Price, High Price, Low Price, Close price and Volume. It also captures the Holding Period Returns and Annual Returns. Jet Airways Group, swung to an expected net loss in the traditionally weak second quarter (2QFY2012, three months ended 30-Sep-2011) compared with a profit a year ago, hurt by rising fuel prices, a tough pricing environment and large forex losses in the quarter, despite strong passenger and revenue growth. Yield weakness was a concern for Jet Airways, like its peers in the quarter, with Jet Airways senior VP finance, M Shivkumar, noting Air India has been compounding a price war that has caused industry-wide losses and weakened yields. Air India is discounting fares and that's absolutely a problem. Ideally, fares should go up when oil-import costs go up. That's not happening and that's why airlines are in this situation," Mr Shivkumar said. In August 2012, Chief Executive of Jet Airways mentioned that fuel cost increase and depreciation of the rupee against the dollar weighed heavily on the industry's profitability. In fact, ATF price rose 13 percent in the reporting quarter y-o-y, against a rise of just 3 percent in the previous quarter. Overall the fuel cost rose 25.8 percent to Rs 1,967.4

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crore from Rs 1, 563. 7 crore." He further said that though crude has fallen from the highs of \$120 a barrel and now ranges between \$100-105, benefits of the same have not accrued due to the fall of the rupee, which dipped from 44. 70 in Q1 of FY12 to 55. 615 in Q1 of FY13. The airline said the operating environment was impacted by a severely depreciating rupee, ever-escalating aviation turbine fuel prices and the imposition of levies and charges by Delhi airport, which led to an increase in operating costs. As per the Director's report, the year 2012 has been a challenging one for the Company not only because of the events around the world over which the Company has little control but also because of severe overcapacity in the domestic market in India. There were other major events across the world which impacted the business: Slowdown in other economies which led to a drop in yields in international marketsThe weakening of the Indian Rupee vis-a-vis the United States DollarIncrease in crude oil prices and resultant price of Aviation Turbine Fuel, which forms close to 50% of our operating costGeneral stress in the Indian economy which not only meant that interest rates hardened but also made it difficult for airlines like ourselves to raise short term/ working capital debtTowards the second half of the financial year, things started giving way and a major airline in India had to significantly reduce capacity in the market. Also, airlines had no choice but to make fare increases and there were two rounds of fare increases; one in November 2011 of around 10% and another one in March 2012 of around 12%. This had very little impact on the passenger traffic because of the capacity reduction in the market, which also led to a steady increase in the corporate and business class bookings.

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Financial Position, Choice of Issue Process & Choice of Instruments

The data of Jet Airways has been given for different financial years. As per Annual Report 2009-10: The Airline Industry both domestic and global have been adversely affected by the general economic slowdown which has significantly impacted the performance and cash flows of the Company and its subsidiary. This, coupled with the significant depreciation of the Indian Rupee, high fuel cost and lower load factors resulted in significant operating loss during the year and substantial erosion of the net worth. The Company is exploring various means of raising finances and restructuring of its debts/ contracts to overcome the fund requirements for meeting its various short term and long term obligations including financial support to its subsidiary – Jetlite. The management is continuously implementing initiatives directed at improving operating profits through cost control, route rationalization, leasing out aircraft etc. The Company expects that such measures would result in improving operational efficiencies and cash flows and, accordingly,

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is of the view that presenting these financial statements on a going concern basis, which contemplates the realisation of assets and settlement of liabilities in the normal course of business is appropriate. The Board of Directors had not recommended a dividend on the Equity Shares in view of the performance of the Company for the financial year ended 31st March, 2010 (Previous year: Nil per Equity Share). At the Extraordinary General Meeting held on 24th September, 2009, the Members had given their approval for raising capital through a Qualified Institutions Placement (QIP) / Global Depositary Receipts (GDRs) / American Depositary Receipts (ADRs) / Foreign Currency Convertible Bonds (FCCBs) / other Securities up to an amount not exceeding US\$ 400 Million in the course of one or more domestic and / or international offering(s). The proceeds of the offering(s) were to be utilized to capitalize the Company adequately besides meeting the working requirements of the Company. However, due to the uncertain market conditions this proposal could not be implemented. According to the provisions of Chapter VIII of the Securities and Exchange Board of India (SEBI) (Issue of Capital and Disclosure Requirements) Regulations, 2009, the Special Resolution passed by the Members for approving the proposal is valid for a period of twelve months from the date of passing the Special Resolution. Therefore, the Special Resolution passed at the Extraordinary General Meeting held on 24th September, 2009, was due to expire on 23rd September, 2010. Since the Company proposed to raise capital, an enabling Resolution was being proposed to give adequate flexibility and discretion to the Board of Directors to finalise the terms of the issue, subject to compliance with all applicable laws, rules, regulations, guidelines and approvals. The detailed terms and conditions for the offer will be determined

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in consultation with the Advisor(s), Lead Manager(s), Underwriter(s) and such other agency(ies) as may be required to be consulted by the Company considering the prevailing market conditions and other relevant factors. The pricing of the domestic and / or international offering(s) will be subject to compliance with all applicable laws, rules, regulations, guidelines and approvals, including of the Foreign Investment Promotion Board and may be at a premium or discount to market price in accordance with international / domestic practice, as the case may be. The pricing of the Securities shall be in compliance with applicable laws, guidelines and regulations and, further, that Securities that may be issued pursuant to a QIP shall be in accordance with the applicable SEBI guidelines which presently provide for a price not less than the average of the weekly high and low of the closing price of the related Securities quoted on the Stock Exchanges during the two weeks preceding the " relevant date." The " relevant date" means the date of the meeting in which the Board decides to open the proposed issue or as may be determined in accordance with applicable laws, rules, regulations, guidelines and approvals. The Securities issued pursuant to international offering(s) may be listed on stock exchange(s) outside India as may be decided by the Board in consultation with its Advisor(s), Lead Manager(s) and Underwriter(s). The Securities issued pursuant to domestic offering(s) shall be listed on the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited. The Special Resolution seeks to give the Board powers to issue Securities in one or more tranches, at such time or times, subject to compliance with all applicable laws, rules, regulations, guidelines and approvals. Section 81(1) of the Companies Act, 1956, provides, inter-alia, that when it is proposed to increase the issued capital of the company

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by allotment of further shares such further shares shall be offered to the existing shareholders of the Company in the manner laid down therein, unless the shareholders in a general meeting by way of a special resolution decide otherwise, in accordance with Section 81(1A). The Special Resolution, inter-alia, also seeks to give the Board the flexibility of including a green shoe or over allotment or similar option in the offering of Securities, so long as they do not exceed US\$ 400 Million in the aggregate. As per Annual Report 2010-11: During the financial year 2010-11, the Company improved its operating performance consequent to passenger traffic returning to normalcy and reflected operating profits in the first three quarters. However, as a result of significant increase in the crude oil prices not matched by increase in fares, the Company could not maintain its profitable performance during the last quarter of the year. This, in the view of the Company is purely temporary as the fuel prices have now subsided and going forward, the Company expects to perform better. The Company is also exploring options of raising finances to meet its various short term and long term obligations including financial support to its Subsidiary – Jet Lite (India) Limited. These measures would result in sustainable cash flows and accordingly continues to present these financial statements on a going concern basis, which contemplates realization of assets and settlement of liabilities in the normal course of business. Depreciation on all owned tangible assets (including Simulators) other than Aircraft was hitherto provided on Written Down Value method. In order to reflect a more appropriate preparation / presentation of financial statements, the Company has changed the method of Depreciation on all owned tangible assets (including Simulators) other than Aircraft from Written Down Value Method to Straight Line Method w. e. f. 1st April, 2010

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and the surplus amount of Rs. 12, 225 lakh arising from retrospective computation has been accounted and disclosed under Exceptional Items for the year ended 31st March, 2011. Consequently, charge on account of depreciation for the year ended 31st March, 2011 is lower by Rs. 699 lakh. At the Annual General Meeting held on 26th August, 2010, the Members had accorded their approval for raising capital through a Qualified Institutions Placement (QIP) / Global Depositary Receipts (GDRs) / American Depositary Receipts (ADRs) / Foreign Currency Convertible Bonds (FCCBs) / other Securities up to an amount not exceeding US\$ 400 Million (United States Dollars Four Hundred Million) in the course of one or more domestic and / or international offering(s). The proceeds of the offering(s) were to be utilized to capitalize the Company adequately besides meeting the working requirements of the Company. According to the provisions of Chapter VIII of the Securities and Exchange Board of India (SEBI) (Issue of Capital and Disclosure Requirements) Regulations, 2009, the Special Resolution passed by the Members for approving the proposal is valid for a period of twelve months from the date of passing the Special Resolution. Therefore, the validity of Special Resolution passed at the Annual General Meeting held on 26th August, 2010, is due to expire on 25th August, 2011. However, due to the uncertain market conditions, implementation of this proposal has not been possible. Since the Company intends to raise capital, it is proposed to approach the potential investors as and when the market conditions are suitable. For this purpose, an enabling Resolution is being proposed to give necessary authority to the Board of Directors to decide and finalise the timing and the terms of the issue, subject to compliance with all applicable laws, rules, regulations, guidelines and approvals. The detailed terms and

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conditions for the offer will be determined by the Board of Directors in consultation with the Advisor(s), Lead Manager(s), Underwriter(s) and such other agency(ies) as may be required to be consulted considering the prevailing market conditions and other relevant factors. The pricing of the domestic and / or international offering(s) will be subject to compliance with all applicable laws, rules, regulations, guidelines and approvals, including of the Foreign Investment Promotion Board and may be at a premium or discount to market price in accordance with international / domestic practice, as the case may be. The Special Resolution, inter-alia, also seeks to give the Board of Directors the flexibility of including a green shoe or over allotment or similar option in the offering of Securities, so long as the amount does not exceed US\$ 400 Million in the aggregate. As per Annual Report 2011-12: At the Nineteenth Annual General Meeting held on 17th August, 2011, the Members had accorded their approval for raising capital through a Qualified Institutions Placement (QIP) / Global Depositary Receipts (GDRs) / American Depositary Receipts (ADRs) / Foreign Currency Convertible Bonds (FCCBs) / other Securities up to an amount not exceeding US\$ 400 Million (United States Dollars Four Hundred Million) in the course of one or more domestic and / or international offering(s). The proceeds of the offering(s) were to be utilized to capitalize the Company adequately besides meeting the working requirements of the Company. According to the provisions of Chapter VIII of the Securities and Exchange Board of India (SEBI) (Issue of Capital and Disclosure Requirements) Regulations, 2009, the Special Resolution passed by the Members for approving the proposal is valid for a period of twelve months from the date of passing the Special Resolution. Therefore, the validity of the Special Resolution passed at the

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Nineteenth Annual General Meeting held on 17th August, 2011, is due to expire on 16th August, 2012. However, due to the unfavourable and uncertain market conditions, this proposal could not be implemented. The intention of the Company to raise capital still holds good and therefore, it is proposed to approach the potential investors as and when there is an improvement in the situation. For this purpose, an enabling Resolution is being proposed to give necessary authority to the Board of Directors to decide and finalise the timing and the terms of the issue, subject to compliance with all applicable laws, rules, regulations, guidelines and approvals. The detailed terms and conditions for the offer will be determined by the Board of Directors in consultation with the Advisor(s), Lead Manager(s), Underwriter(s) and such other agency(ies) as may be required to be consulted considering the prevailing market conditions and other relevant factors. The pricing of the domestic and / or international offering(s) will be subject to compliance with all applicable laws, rules, regulations, guidelines and approvals, including of the Foreign Investment Promotion Board and may be at a premium or discount to market price in accordance with international / domestic practice, as the case may be. The Special Resolution, inter-alia, also seeks to give the Board of Directors the flexibility of including a green shoe or over allotment or similar option in the offering of Securities, so long as its does not exceed US\$ 400 Million in the aggregate. The pricing of the Securities shall be in compliance with applicable laws, guidelines and regulations and, further, that Securities that may be issued pursuant to a QIP shall be in accordance with the applicable SEBI guidelines which presently provide for a price not less than the average of the weekly high and low of the closing price of the related Securities quoted on the Stock

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Exchanges during the two weeks preceding the "relevant date." The "relevant date" means the date of the meeting in which the Board of Directors decides to open the proposed issue or as may be determined in accordance with applicable laws, rules, regulations, guidelines and approvals. The Company is also exploring options of raising finances to meet its various operational and financial obligations including financial support to its Subsidiary – Jet Lite (India) Limited. These measures are expected to result in sustainable cash flows and accordingly these Financial Statements continue to be presented on a going concern basis, which contemplates realization of assets and settlement of liabilities in the normal course of business. Jet Airways posted its fourth straight quarterly loss on Friday, as the top Indian carrier continued to reel under higher fuel costs and lower fares but said its fund-raising plan was on track. Jet posted a loss of 1. 01 billion rupees for the quarter that ended in December, compared with a profit of 1. 18 billion rupees a year back. Revenue rose 13. 4 percent to 39. 39 billion rupees." The company continues to explore options to improve the operating results and cash flow through sale and lease back of aircraft, route rationalisation and cost control measures, Chairman Naresh Goyal said in a statement. Jet's auditors said in the company statement to the exchange that the company's ability to generate cash to support obligations and its low-cost subsidiary, JetLite, will be crucial to its continuing operations. Jet, with JetLite, enjoys about a quarter of India's total civil aviation market. The company's fund-raising plans were "well on track," the company said in a statement." We are continuing to see a steady increase in our corporate and business class bookings over the last few weeks, given what has been happening in the industry and with competition," Jet said. In 2011, Etihad Chief Executive

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James Hogan had sought the Centre's approval to include more India-Abu Dhabi routes in its scheme of things. Etihad, which has been acquiring stakes in airlines across the world, is keen on investing in India. Etihad Airways may pick a minority stake in Jet Airways. If the deal works out Jet Airways will be the first to receive FDI in aviation sector. Goyal, once a staunch opponent of opening up the sector to foreign airlines, has now taken a different stance and welcomed the government's recent decision. Goyal holds 80 per cent stake in Jet Airways through Tailwinds Limited, a foreign-registered company. In August, on the sidelines of the company's annual general meeting in Mumbai, Goyal had said Jet Airways was an Indian company and he was a non-resident Indian, clarifying the government's norms on allowing FDI in aviation did not bar his airline from seeking a strategic partner. On equity dilution, he had said, " So far, as it stands, we will be controlling. If the sentiment and the overall situation improves, I will have an open mind to dilute, but have control over the company." He had, however, clarified he wasn't immediately seeking a foreign airline partner.

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Alternative Instruments possible & possible problems with instruments issued

As per the Business Standard story though Goyal himself is a non-resident Indian (NRI), Jet is an Indian company and is, therefore, entitled to seek a strategic foreign partner. It is widely known that Goyal holds an overwhelming 80 percent equity in the airline through a company called Tail Winds, which is registered in the Isle of Man. So, in effect, Jet is already 80 percent owned through a vehicle abroad. Till the new norms removing the cap on foreign companies buying into Indian carriers get notified, Jet continues to operate in violation of the current FDI guidelines which cap investment by foreign institutions (excluding airlines) at 49 percent. There could, however, be one way through which Naresh Goyal may succeed in getting Etihad, or any other foreign carrier, to buy into his airline – by issuing fresh shares and diluting his own shareholding in Tail Winds. An industry veteran pointed out that if Goyal gets the correct valuation for his company, this route could be taken to remain within the 49 percent cap for foreign airline investment. Jet's multiple attempts to raise money abroad through the Qualified Institutional Placement (QIP) route have been rejected by the Foreign Investment Promotion Board in the past precisely because of the breach of current FDI policy. How then will the airline be able to structure a deal with Etihad or any other foreign carrier? An aviation expert pointed out that Goyal may offload some of his stake in Tail Winds to a foreign carrier to carry forward any such deal. But then, how will Goyal convert the remaining equity, routed through Tail Winds, into shares owned by Indians? Not many people may be aware of the deep friendship and trust which has existed between Goyal and the Etihad management, much before any talk of equity

partnership surfaced. But is Goyal engaging Etihad because it wants to deflect the Abu Dhabi-based airline's attention away from other potential acquisition targets like SpiceJet and Kingfisher Airlines? Industry experts have pointed out earlier that Etihad had signed a letter of intent with Kingfisher much before the government opened foreign airline investment, which made the intention of Etihad to consider a partnership with Kingfisher clear. Apparently, Etihad and Qatar Airways are two airlines which want a firm hold in the Indian skies to thwart the more powerful Emirates, which is currently the largest airline operating to and from India. Industry insiders also aver that Jet may just be keen to forge a specific code share agreement with Etihad instead of angling for a full-fledged equity deal. Another industry source pointed out that Jet's ambition of entering the powerful global airline grouping, Star Alliance, may not fructify if it went ahead and struck an equity partnership with Etihad. The cold vibes between Gulf-based carriers and Star Alliance (which is a 27 airline grouping) has been well known. This source said that though, legally, Star Alliance members cannot prevent Jet from forging such a deal, this may make Jet's entry into Star Alliance quite tough. Apart from pushing the government to help it enter the Alliance, Jet is also reported to be talks with Lufthansa for a code share partnership. Will seeking equity investment from Etihad mean Jet will have to rethink these moves? Then, even if Etihad wants to buy into Jet, why will it agree to a higher valuation? The ET report says Jet wants Etihad to value it at \$800 million (around Rs 4, 300 crore) but Etihad wants to pay half that amount, since the market value of Jet shares is currently around Rs 3, 100 crore. Last year, Jet's losses stood at Rs 1, 236 crore despite many financial engineering deals involving sale-and-leaseback of aircraft. Worse, it has ceded market

leadership to IndiGo. In August, IndiGo had a market share of 27.6 percent against the combined market share of 25.2 percent for Jet and its low-cost carrier JetLite. So from the looks of it, a deal between Jet and Etihad may still be some distance away. The best thing an airline can do in response to a rise in costs beyond its control is to maintain cost discipline in the inputs which are controlled by the airline. Yet not only did Jet fail to cut costs, it actually allowed its non-fuel costs to appreciate at levels greater than the growth in capacity. http://3.bp.blogspot.com/-3MaYfdgproA/T_1PoBCIf4I/AAAAAAAAAHUQ/TW-zEdLOxSE/s1600/download.png

The general rule of thumb is that as an airline's cost rises, it should maintain capacity discipline, taking a hard look at the profitability of its network and cutting out the most marginal routes. But Jet, to a large degree has simply maintained the status quo, growing capacity as if nothing has changed. ASKM growth for fiscal year 2012 was 12.6%, hardly indicative of a carrier that is cutting marginal routes from its network. To a large degree, the US carriers have embraced capacity discipline, with Delta Air Lines in particular taking sharp steps to cut marginal and unprofitable European flights from its network. And while the US carriers haven't been world beaters in terms of profitability, they've managed to stave off losses, while Jet Airways saw net margin decrease by 10 percentage points while inducting 5 more aircraft and increasing fleet utilization. Longer term the best strategy for Jet is to replace all of its 777-300ERs with A330-300s (the latter can be stretched to 290 seats or so) converting to a 3-class configuration with premium economy (removing first class) and growing to a fleet of around 10 frames or so. As Jet's route network stands currently, there is not a single route that cannot be performed with either an A330-200 <https://assignbuster.com/jet-airways-pvt-ltd-finance-essay/>

or an A330-300 and it is likely to remain as such for the foreseeable future unless Jet is planning nonstop flights to the US and/or to Australia.

Additionally, Jet should take delivery of all 5 remaining A330-200s on order bringing them to a fleet of 14 of the type. Then Jet should place an order for 15 787-9s as well as 6-8 additional 787-8s and replace the A330-300 with the 787-9 and the A330-200 with the 787-8 by 2020. This type of fleet plan will allow Jet to streamline its fleet around one aircraft type (except in the interim period of replacement), while providing the correct blend of low costs and right-sized capacity in the Indian market.

Sources:

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Conclusions

Jet Airways reported a large net pre-tax loss (Jet Airways and JetLite combined) of Rs. 1, 331 Crore for fiscal year 2012, a very disappointing result. Revenue and passenger growth were robust as usual at 14. 8% and 16. 3% respectively. But the carrier's net margin of -8. 5% is indicative of tangible flaws in the business, and goes beyond the explanations of higher fuel prices and rupee depreciation given by Jet, though these factors did play a major role. To be sure, Jet Airways did have to deal with a large rise in fuel costs; a 51. 8% rise in absolute terms, or 39. 2% per ASKM. And the decline of the rupee to around 55 Rupees to the dollar, from 45 INR per dollar just a year ago has certainly hurt Jet, who accrues a larger share than normal of its operating costs in US dollars thanks to its international presence. But these

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are challenges faced in common by all of the Indian carriers, and most of the world in terms of fuel prices. In times of rapidly rising inputs, the onus is on the carrier to make the changes necessary to maintain profitability. In June-July, Jet Airways cancelled flights, thereby mis-managed the flights and allowed other carriers to profit from their loss, the reality is that this list of cuts was hard but necessary in order for Jet's international operations to get a step closer to profitability. Jet bears a large percentage of its international costs in US dollars and as such, its international operations have become a lot harder to support fiscally (because its financial results are tabulated for the most part in Rupees, and much of Jet's international sales are done in Rupees as well). The nearly 25% drop in the value of the Rupee essentially pushed Jet's seat-kilometer costs (CASK) up at least 10-12%, with a corresponding rise in break even fare and load factor. For the 4th quarter, international breakeven load factors reached a dangerously high 92. 2%, unit revenues (RASK) were up 18. 0% to 2. 68 Rs. Per available seat kilometer, but much of that revenue growth was driven by Rupee depreciation. Ultimately, the signal for Jet that things had gotten out of hand was the 41. 8% decline in the net international result to a Rs. 1, 051 Crore net loss from Rs. 741 Crore a year prior. Pruning the most unprofitable routes then had to be a concern for Jet. These routes (unsurprisingly) had very good loads. So following a dismal 2012, how will Jet Airways perform financially in Fiscal Year 2013? The correct answer is that things are very fluid. There is no question that the recent down-slide in fuel prices towards a likely stabilization in oil prices between \$70 and \$90 per barrel (West Texas Intermediate or WTI measure – likely to occur because of rising US oil production and the return of Libyan oil) will benefit Jet Airways substantially –

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the ultimate trend in Jet's finances is that they make money when oil prices are low and lose money when they are high. So a push towards stability in the oil market is a very good thing for Jet, though it's too bad that they cannot "hedge" (buy some form of oil futures now, then pocket the gains to offset fuel price increases if oil spikes). [http://3. bp. blogspot. com/-JnNHrcV0Nw0/T_1PqMjOXBI/AAAAAAAAAHUY/PX4hAnIDEQ8/s1600/download+%25281%2529. png](http://3.bp.blogspot.com/-JnNHrcV0Nw0/T_1PqMjOXBI/AAAAAAAAAHUY/PX4hAnIDEQ8/s1600/download+%25281%2529.png)On the other side, the recent trend of rising fares in the domestic market and abroad will be helped by Kingfisher's diminished service; which will prop up premium fares domestically and international fares to a lesser degree. Capacity as a whole in the Indian market has been much more flat in the past couple of months which should help the bottom line. Jet will also see boosted profitability on the international front, as it sheds the most unprofitable routes in its network and benefits from a hopefully stabilizing rupee. In conclusion, fiscal year 2013 is an uncertain one for Jet Airways. On one hand, they will undoubtedly benefit from stabilization of yields, capacity, and oil prices both within India and abroad. At the same time, there is significant downside risk from new entrants and SpiceJet's regional operations. The most likely result is that Jet will perform better financially, but not yet at an adequate level of profitability. Like the suddenly shaky Indian economy, Jet might be on a path to simply muddle through in 2013.

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