



Air India Embarks on a Turnaround Plan

Global Aviation Industry is currently going through the most difficult phase. Airlines have collectively lost over US \$10.4 billion last year, and are estimated to lose a further US \$9 billion this year, of which US \$2 billion (Rs 10,000 crores) will be the share of Indian carriers. With Air India operating in a global environment, the national carrier has been impacted as adversely as other airlines the world over.



Air India Chairman, Mr Arvind Jadhav, addressing the media in New Delhi on August 7, 2009.

The causes for the losses suffered by Air India need to be viewed in the perspective of:

- Escalating costs, particularly of ATF.
- Fewer passenger numbers, particularly in the premium class.
- Low fares with a gradual shift of passengers from legacy full service airlines to low cost airlines.
- Decline in carriage of cargo.
- Excess capacity in a 'falling' market.

As the existing downturn is expected to continue, Air India has initiated several measures for operational and financial turnaround. The measures proposed for attaining these objectives are:

- Product upgradation through improved on time performance and enhanced customer touch point experience.
- Seamless connectivity from interior points of India to destinations abroad.
- Pre-mature retirement of old aircraft, including leased aircraft, and their replacement with a newer fuel efficient fleet.
- New aircraft with best-in-class passenger amenities.
- Rationalization of routes and capacities.

These measures will enable Air India to achieve higher passenger revenues through improved load factors and increased yield.

The management will simultaneously focus on increased revenue generation through allied businesses like cargo, engineering and ground handling.

Hard Facts

- Air India has never received budgetary support, except for the initial equity.
- Past fleet acquisitions by Air India have always been financed through internal resources. In the past 20 years alone, 41 aircraft worth US \$3 billion were self-financed.
- Air India also inducted leased aircraft to augment capacity, without any government support.
- Aircraft acquisition after a 15-20 year gap has resulted in a large fleet order and high debt burden.
- In the last 3-4 years the entry of low cost carriers has caused the aviation tariff structure to transform from a cost plus to a market driven pricing structure, with capacity exceeding demand.
- Internal resource generation in the current context is insufficient to fund aircraft acquisition costs.

- The magnitude of debt burden and rising cash deficit in a 'falling' market necessitates aggressive financial restructuring (capitalisation and debt restructuring).
- There are several national carriers across the world who have received financial support from their respective Governments e.g. Japan Airlines, China Southern, China Eastern, British Airways, etc.
- Air India and erstwhile Indian Airlines have contributed an amount of approximately Rs. 4500 crores by way of taxes, duties and dividends to the exchequer.

Air India Roadmap

- Focus on execution, accountability, cost reduction and revenue generation.
- Adopt international best practices in airline operations, MRO activity, airline terminal services, cargo, aviation skills development, corporate governance and HR.
- Be accountable to the stakeholders.

FY-10	FY-11	FY-12
<ul style="list-style-type: none"> • Operational restructuring <ul style="list-style-type: none"> – Cost Reduction – Revenue Enhancement • Financial Restructuring 	<ul style="list-style-type: none"> • Business restructuring <ul style="list-style-type: none"> – low cost model, – Subsidiaries for Cargo, MRO etc operational • Brand building & Makeover • Preparation for IPO 	<ul style="list-style-type: none"> • Additional Public Offer <ul style="list-style-type: none"> • Public • Indian Financial Institutions • QIPs
<ul style="list-style-type: none"> – Focus on ‘Survival’ 	<ul style="list-style-type: none"> – Focus on reducing losses 	<ul style="list-style-type: none"> – Healthy operating margins – Deliver the ‘future’ Air India

Current market pressures are expected to continue over the next 2-3 years. Therefore the only option available is the rationalization of costs without losing sight of the long term requirements of Air India.

- **Route rationalization and route profitability:** NACIL will enhance focus on LCC for high density domestic/international routes and will undertake an aggressive route restructuring for seamless connectivity facilitated by 6th freedom traffic rights, Star Alliance network and other code shares with Airlines for routes where NACIL has nil or insignificant operations.
- **Revenue generation** through better revenue and yield management, greater customer segmentation and adoption of more effective CRM practices.
- **Creation of subsidiaries** for Maintenance, Repair & Overhaul(MRO) , Ground Handling and Cargo to fully leverage existing capabilities, reduce overheads on airline operations and create new sources of long term revenue generation.
- **Manpower rationalization** to achieve industry benchmarks. Utilization of assets and operating/technical crew as per DGCA /FAA/JAA.
- **Monitor Operational Quality and Efficiency by initiating** business process, inventory and IT audits through independent agencies.

- **Adopt a robust Enterprise Risk Management** framework to eliminate redundancies and minimize dilution of revenues.

Employee Participation in Turnaround Process

Air India has constituted committees to address issues of turnaround. For the first time, Air India management has engaged workers through their representative unions on these committees, so that their experience can enrich the turnaround process. The committees will work in areas such as route rationalization/schedules, manpower rationalization, green initiatives, integration, procurement and contracts, engineering, customer feedback, safety, alliances and turnaround strategy.

Brand Building and Makeover

- Tie-up with major hospitality chains for service standard training and makeover for cabin crew, customer handling and sales functions. Periodic Customer Satisfaction Surveys through independent agencies will be undertaken. NACIL will focus on F & J class, leisure travel to improve yields. Aggressive brand harmonization across key customer interfaces will become the prime directive to increase brand loyalty.
- NACIL will undertake strategic initiatives to ensure market presence and continuity by fast tracking entry into Star Alliance, improving the existing loyalty programme, and commercial process transformation supported by an enterprise-wide IT transformation that will allow NACIL to achieve international quality levels in terms of delivery and service. Some of the key systems that will enable this transformation are Enterprise Resource Planning (ERP), Passenger Scheduling System (PSS), Hub Control System/IOCC (Integrated Operations Command Centre), MRO (Maintenance Repair and Overhaul).
- NACIL will closely function with IATA for Strategic Alignment Assistance programme and seek advisory support from Lufthansa, Singapore Airlines, Egypt, Malaysian Airlines, Delta on their transformation programmes. For this purpose, an International Aviation Advisory Board with representatives from Europe, Asia and USA will be constituted.

Annexure

NACIL – Draft Restructuring Plan

	0-9 months	9-18 months	18-36 months
Imperative	Survival	Loss Reduction	Profitable Growth
KPIs *	<ul style="list-style-type: none"> Working capital reduction Improvement in Net cash position 	<ul style="list-style-type: none"> Operating Margin (%) 	<ul style="list-style-type: none"> Operating and Net Margin (%) Market Share (%)
Operational Restructuring	<ul style="list-style-type: none"> Optimized fleet utilization Route restructuring / turnaround Sales organization restructuring Integrated & enhanced customer interface Gol as a focus business segment Strengthening ancillary revenue generation Improved Cargo revenue / Incremental MRO / GH revenue Fast-tracking FEGA implementation Manpower agreement review Rationalisation of station / corporate costs 	<ul style="list-style-type: none"> Single-code (PSS) Brand-building & makeover Star Alliance entry Operationalization of Network Clean Sheet recommendations High-yield segment focus (FFP / CRM) Scaling of domestic LCC operations Structural cost reduction Redesign of core commercial / operational processes (CTP / IOCC)* Revitalization of support functions & building of a robust IT platform (ERP) Fleet rationalisation Redesign of work rules and employee incentivization schemes 	<ul style="list-style-type: none"> Strategic Star Alliance partner Redefinition of customer value proposition (door-to-door) Growth of 3rd & 4th freedom traffic (expansion into new markets) Increasing share of sixth-freedom traffic (codeshares / other alliances) Micro-segmentation & targeting of customers (CRM)
Business Restructuring	<ul style="list-style-type: none"> Launch of domestic LCC operations Plan for carve-out of subsidiary businesses 	<ul style="list-style-type: none"> Operationalization of subsidiary businesses (GH / MRO / Cargo / Aviation Training) New Governance structure 	<ul style="list-style-type: none"> Spin-off non-core businesses (Additional public offering/ JVs)
Financial Restructuring	<ul style="list-style-type: none"> Re-evaluation of aircraft purchase & financing Capitalisation & debt restructure 	<ul style="list-style-type: none"> Bridge aircraft financing 	<ul style="list-style-type: none"> Preparation for IPO & additional Fund Offering

* Key Performance Indicators