



SpiceJet—Hope is in the air?

A Case Study On Revival of SpiceJet Airlines

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RBSA
Research Initiative



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1. Executive Summary



On October 30, 2014, at the Kempegowda International Airport in Bengaluru, passengers trying to board the early-morning Chennai flight found no staff at the SpiceJet counters. They had gone on a flash strike for non-payment of dues. It was only hours later that an airline official came to inform the passengers that their flight would take off in the afternoon. By December 2014, the airline announced that it was cancelling over 1,800 domestic flights — on average around 80 a day — during the month.

Not so long ago, in 2012, the airline bagged the prestigious India's International Low Cost Carrier of the Year by Travel Agents Association of India.

It celebrated a culture of exuberance and flamboyance. It's cabin crew celebrated Holi by dancing on board. The airline introduced 'weekend uniforms' for employees— colourful tops paired with jeans — and played rock songs on flights. SpiceJet was India's second most favourite airline.

“If you want to be a Millionaire, start with a billion dollars and launch a new airline”–Richard Branson

Come 2014 – delayed flights, reschedulement at short notices and disgruntled flyers at counters had become symbolic with SpiceJet. The airline was marred by ineffective leadership, policy decisions, rising fuel costs, cash crunch and accumulated losses. No one - the industry, the government, the flying public, wanted to see another airline go the Kingfisher way.

Cometh the hour cometh the man! In January 2015, Ajay Singh, SpiceJet's co-founder and former promoter, acquired the ownership and management control of the airline from Kalanithi Maran and his associates.

In May 2015, the airline swung to profit in the fourth quarter, beating analysts estimates, after six straight quarters of losses. Is Ajay Singh the airline's saviour? Anybody's guess!



2. Background of the Indian Aviation Industry

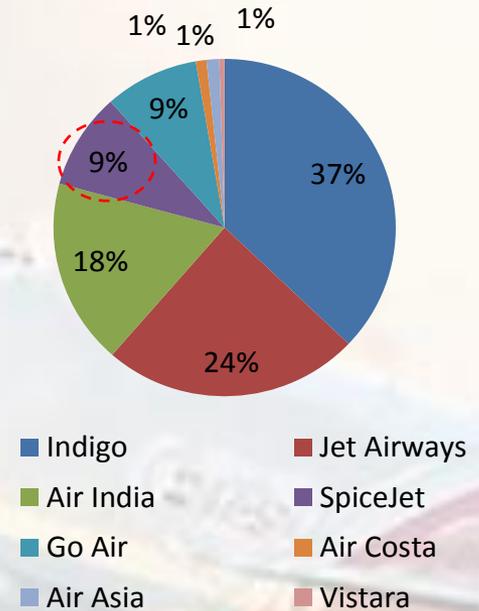


Indian Aviation Industry is one of the fastest growing airline industries in the world. The last few years have been without doubt some of the most challenging in India's aviation history. Over-capacity, high input costs, intense competition and a negative policy and regulatory environment conspired to threaten the viability of virtually the entire aviation value chain. India's airlines alone have lost more than USD10 billion combined since FY2009. Airline debt stands at around USD11 billion, rising to close to USD14 billion if liabilities to vendors are included. At an industry level airline debt is now equivalent to more than 100% of airline revenue.

Aviation experts feel that India has the potential to become the third largest aviation market by 2020 and the largest by 2030. There is large untapped potential for growth due to the fact that access to aviation is still a dream for nearly 99.5% of its population.

Number game	
Size of the industry	There are about 449 airports and 1091 registered aircrafts in India Today
Output per annum	Growth rate of 18% per annum
Airport needed by 2020	~500 airports
Employees needed by 2020	~350,000 people
Key challenges	<ul style="list-style-type: none"> • Volatility in fuel prices • Safety issues • National policy • Infrastructure • Skilled labour • Company specific challenges

Current Market Share 2015



Source: DGCA



3. SpiceJet – The Beginning



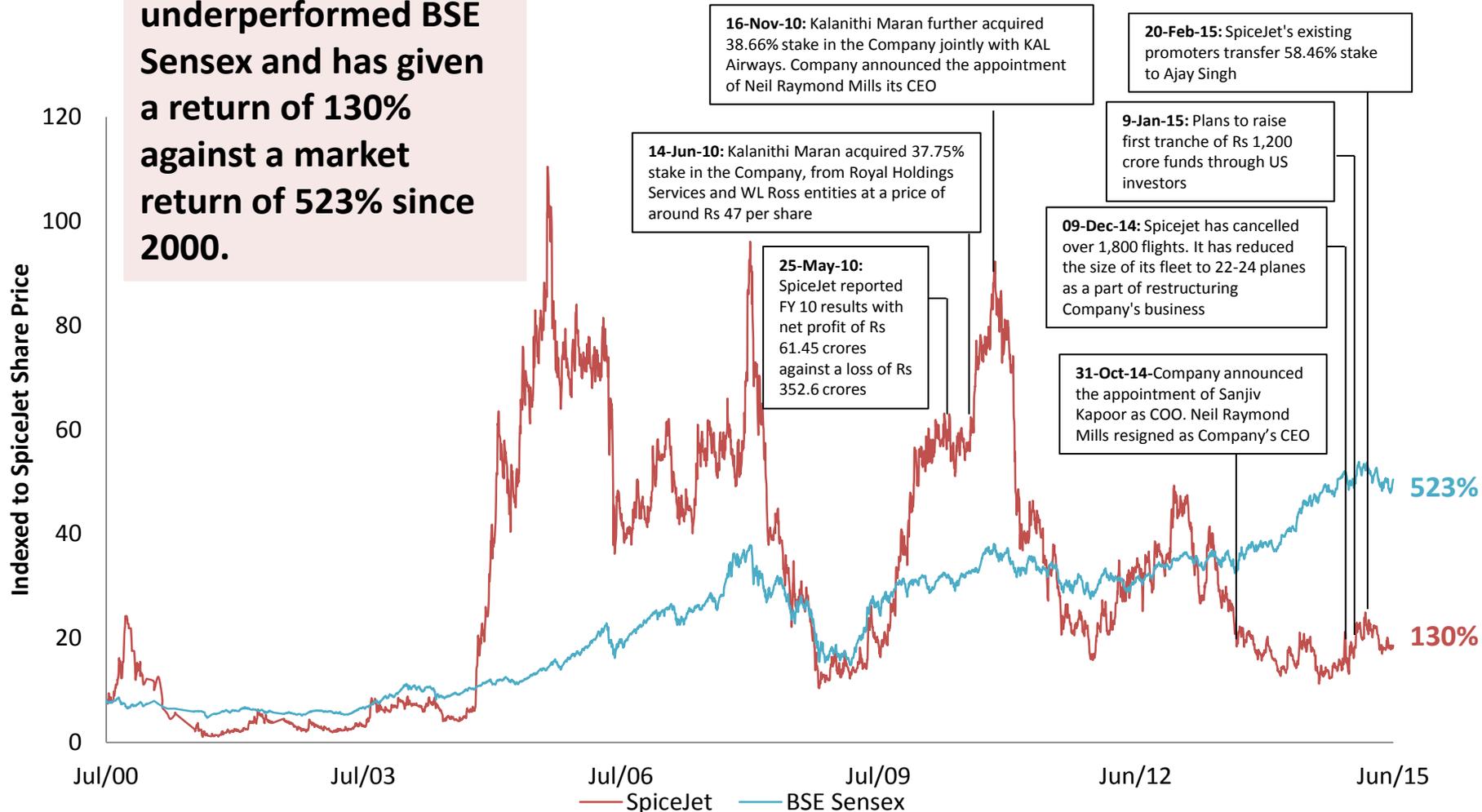
- SpiceJet is an Indian low-cost airline (a no-frills, discount or budget carrier airline) that generally offers low fares in exchange for eliminating many traditional passenger services.
- As of March 2015, it is country's fourth largest airline by domestic passenger share (DGCA, March 2015).
- Operates more than 270 daily flights to 41 destinations, including 34 Indian and 7 international cities
- Uses a fleet of Boeing 737 Next Generation and Bombardier Dash 8 Q400 aircraft.
- Began services in May 2005 and bookings were opened on 18th May, 2005 and the first flight was operated from Delhi to Mumbai on 24th May, 2005.
- Marked it's entry in the Indian skies with INR 99 fares for the first 99 days with 9,000 seats available at this rate.
- In 2004, Ajay Singh along with NRI business family Kansagras, with investment interest in Africa, infused funds and leased 3 Boeings 737-800 aircrafts and renamed it SpiceJet.
- By 2008, SpiceJet became India's second-largest low-cost airline in terms of market share and was the most profitable airline in the country and the only profitable airline among NSE/BSE listed companies.
- In June 2010, Indian media baron Kalanidhi Maran acquired 37.7% stake in Spicejet.
- In 2012, Spicejet suffered loss of Rs 390 million owing to increase in global crude prices.
- Kalanithi Maran increased his stake in Spicejet by investing Rs 1 billion in the airline. The airline returned to making profits at the end of 2012.



4. SpiceJet Share Price Performance



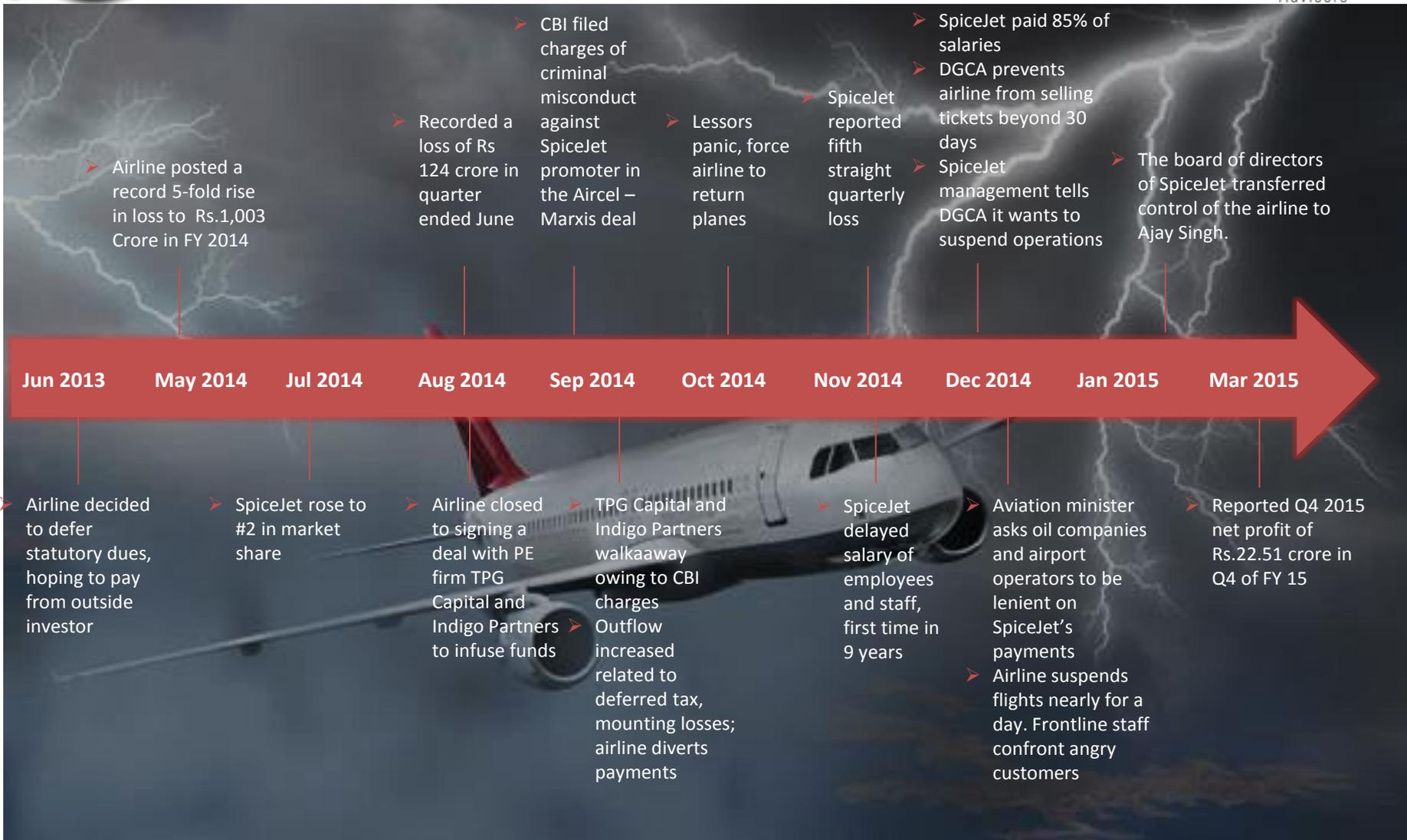
SpiceJet has underperformed BSE Sensex and has given a return of 130% against a market return of 523% since 2000.



Source : Ace Equity



5. Turbulent Times

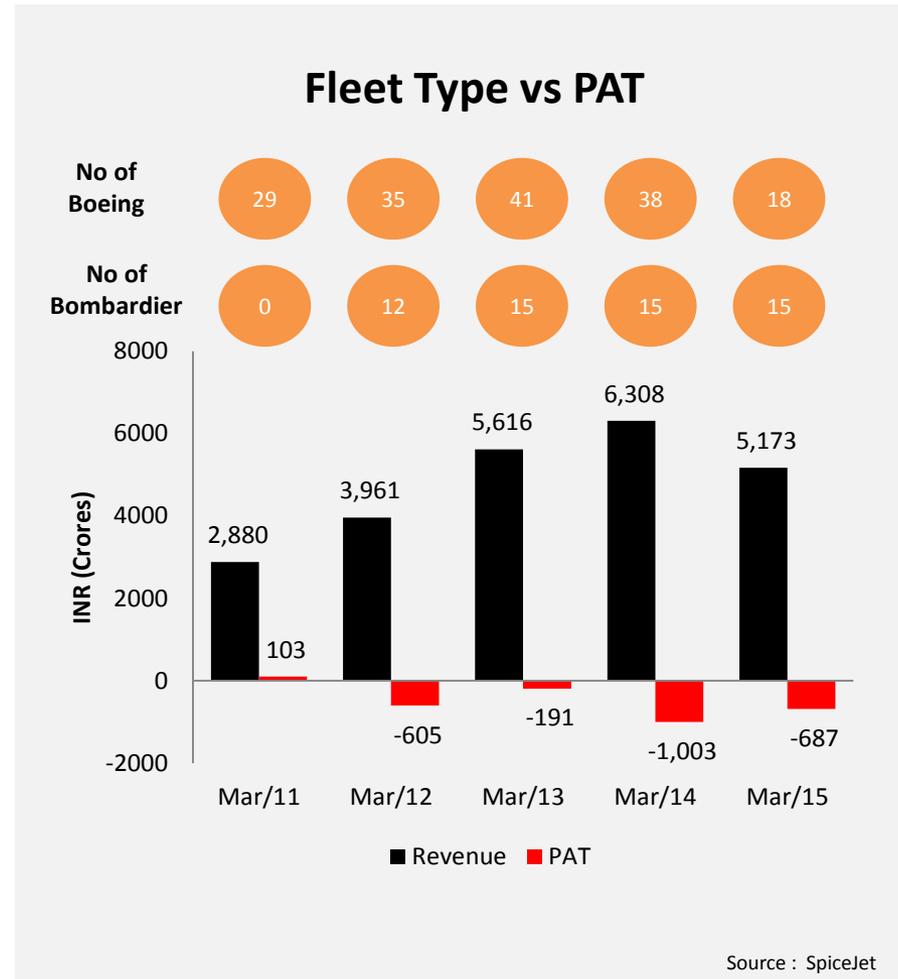




6. Serious Fleet Issues



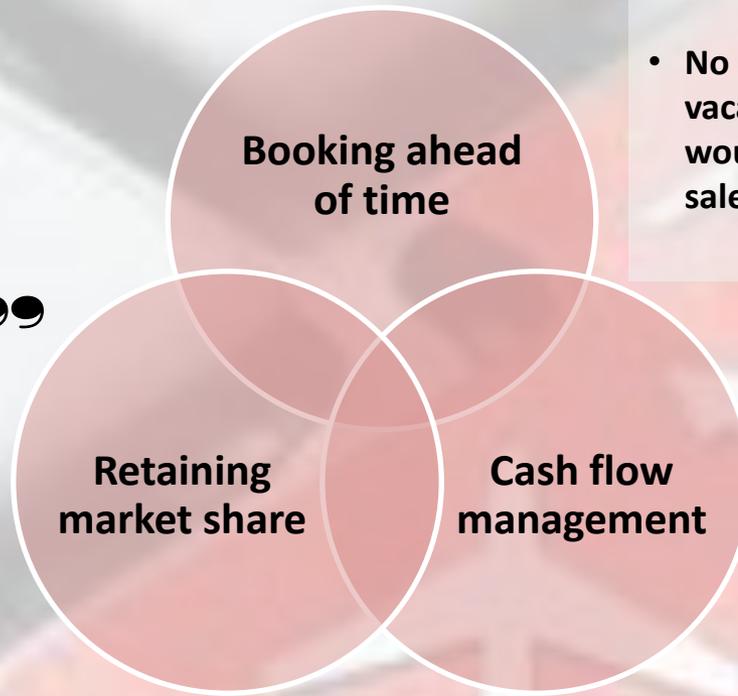
- In 2010, SpiceJet decided to place orders for Bombardier Q400 aircraft, when most airlines in the country had Airbus or Boeings to have economies of scale.
- The price of the 15 Bombardier Q400s was \$450 million, the first of which joined the fleet in 2011.
- SpiceJet's rationale to opt for the 70-seater Bombardier Q400's was that it would widen its network in smaller towns and cities.
- But the lack of support centres in India meant that Bombardiers had to be flown to the Netherlands for maintenance checks.
- Thus, SpiceJet's maintenance costs ballooned to over 50 % . It started impacting its bottom line.
- Also total debt soared from Rs. 55 crore in fiscal 2011 to Rs. 855 crore in fiscal 2012, when the Bombardier was inducted. This doubled to Rs. 1,678 crore in fiscal 2013.
- To add fuel to SpiceJet's problems the price of aviation turbine fuel went up by almost a half.





7. Deep Discounts Backfired

“Nobody wants to lose out. But when everybody starts discounting tickets, everybody loses. It's a race to the bottom”
– Sanjiv Kapoor, COO, SpiceJet



- No airline wants its flights to fly vacant. It's important to note most would never offer all its seats on sale.

- Airlines are fighting tooth and nail to grab passengers. So while one airline offers a sale, the other doesn't want to be left behind.

- It's all about having the money in hand. A rupee today is worth more than a rupee tomorrow. However, on the flipside, repeated sales build an unstable ecosystem.



8. SpiceJet Deal

- On 15th January 2015, the board of directors of SpiceJet transferred control of the airline to Ajay Singh.
- Kalanidhi Maran transferred SpiceJet stake to Ajay Singh via ‘Scheme of Reconstruction and Revival for the takeover of ownership, management and control of SpiceJet Limited’.
- Three issues of public importance were unknown—
 - Scheme Details were not disclosed,
 - Acquisition price not disclosed and
 - Open Offer was exempted
- According to RBSA analysis -

In crores

No. of shares (58.45%)	35.04
Share price as of 15 th Jan 2015	18.65
Equity Value	654
(+) Debt as of 30 th Sep 2014	2,611
(-) Cash as of 30 th Sep 2014	9
Enterprise Value	3,255

“It's a welcome development. Failure of an airline with 17% market share is the last thing our beleaguered aviation sector needs. SpiceJet's revival is good for passengers, employees, lenders, suppliers and the industry as a whole,”

-Amber Dubey, Partner and India head of aerospace and defence, KPMG

“The government of India wanted to see the airline survive. The failure of an airline is fairly visible to the world. When an airline dies, the whole world gets to know and that is very bad publicity for the economy of any country,”

-Ajay Singh, Chairman, SpiceJet



9. Restructuring Plans



Time Performance

- Brought down the outlier costs.
- Shut down some airports and curtailed the network to get back to low-cost model which is fewer stations and higher frequency to these stations.
- In process of renegotiating debt-restructuring plans, have amended the contracts.

Debt Clearance

- Cleared all the statutory debts, bad debt, employee salaries and payments of oil companies.
- Cleared debts of Lessors and are in the process of paying large creditors.
- Cash flow has become much stronger than anticipated.

Fleet and Staff

- To hire about 100 pilots, 50 commanders and 200-odd cabin crew and flight engineers.
- Plans to add six to seven new aircrafts by FY 16.
- Has trimmed expensive top management that were drawing salary of Rs 2 crore per annum.
- To give opportunity of joining the Company to those who had either quit or had been laid off.

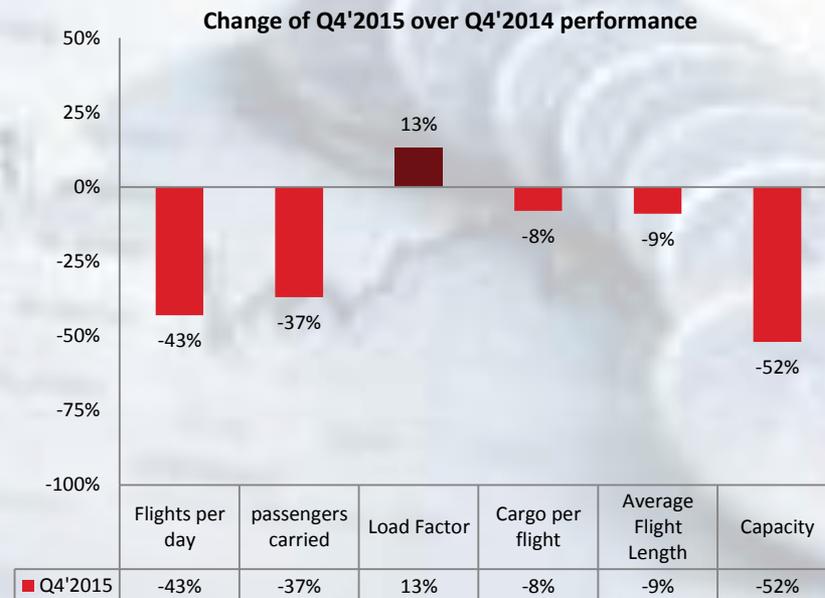
“They are back in Business. Competition is always good”-Phee Teik Yeoh, CEO, Vistara



10. SpiceJet's Q4 2015 Performance Update



- SpiceJet's performance in Q4 FY'15 was promising.
- The board of directors transferred control of the airline to Ajay Singh.
- Active fleet size was reduced 50% y-o-y to 17 Boeing 737s and 13 Q400s.
- After seven quarters of losses, SpiceJet reported a net profit of Rs.22.51 crore in Q4 of FY 15 helped by a Rs 650-crore funding by a new promoter, renegotiated contracts with its vendors and provisioning for re-delivery expenses.
- It also includes an extraordinary item, Rs.61 crore insurance claim received for the Q400 that was written off after an accident at Hubli, Karnataka.
- Airline had reported a net loss of Rs.321.5 crore in Q4 of FY14.
- Despite profit, the airline's EBIT dropped to 50% y-o-y to Rs 786.32 crore in the reporting quarter compared with Rs 1,573.75 crore a year earlier



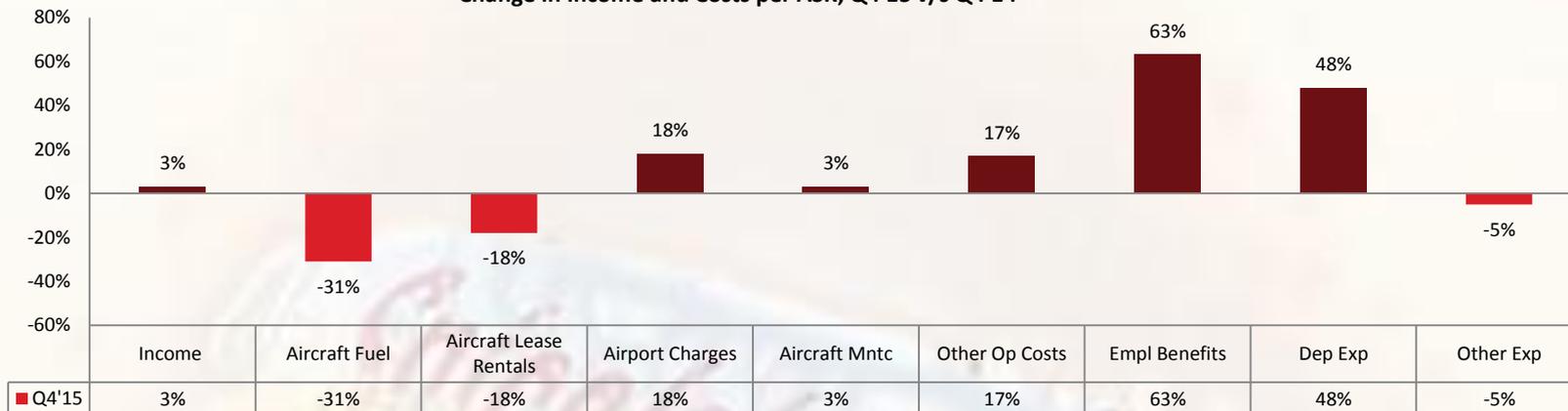
“SpiceJet has now come out the other side of the darkness a more agile, stronger and more adept airline as a result of the change...If SpiceJet continues to gnaw away at costs, especially in a low fuel price environment, then it has the prospects of financial strength to position it for growth”—Saj Ahmad, chief analyst at StrategicAero Research



11. Cost Breakdown Analysis of Q4 2015



Change in Income and Costs per ASK, Q4'15 v/s Q4'14



Income

- Revenue increased 3% y-o-y to Rs 4.15/seat-km.
- Implies that the increase in load factors had a positive impact on unit revenues.

Costs

- D&A costs increased 48% y-o-y o INR 0.16/seat-km mainly due to owned Q400s.
- Airport charges increased 18% y-o-y due to reduced flight lengths.
- Aircraft maintenance costs went up by 3%.
- Other operating costs increased by 17% y-o-y to Rs 0.16/seat-km.
- Other expenses, which includes administrative expenses decreased by 5%.
- Lease rentals per unit decreased by 18% y-o-y, owing to higher utilization of aircraft which diluted this fixed cost.
- Aircraft fuel costs went down 31% to Rs 1.52/seat-km largely due to the fall of ATF prices.
- Employee costs per ASK shot up 63% to Rs 0.57/seat-km as staff salaries were revised upward. ASK Available Seat Kilometers (ASK) captures the total flight passenger capacity of an airline in kilometers.



12. New Avatar



- 1. New Slogan and Brand :** Unveiling of a new brand look and a new slogan 'SpiceJet is different. It is Red. Hot. Spicy' to mark the airline's 10th anniversary.
- 2. SpiceJet Mobile App :** The airline also launched a new mobile application and expects to see a meaningful jump in bookings through it.
- 3. Bag Out First :** A service that ensures your baggage will be the "on Priority". At a nominal cost of Rs 100/- per bag, you may choose to enjoy this benefit.
- 4. Priority Check-In :** A service that provides you a hassle free and comfortable check-in experience at the airport on payment of INR 200 only.
- 5. Spice Assurance :** A promise that flights will fly to a destination on time. This guarantee entitles you to a voucher worth Rs 500 if your flight is delayed between 60 – 119 minutes and a Rs 1000 voucher for a delay beyond 120 minutes.
- 6. SpiceMax :** Enjoy significantly extra legroom on-board, complimentary meal and beverage, priority baggage handling and priority check-in at dedicated SpiceMAX counters at the airport for a modest add-on fee starting at Rs.500 to Rs.1000 depending on aircraft and flight length.
- 7. Colorful Weekends with SpiceJet :** Inspired by the concept of "Casual Fridays" in corporate offices, the airline have designed crew's colorful weekend attire for more cheer in the air.
- 8. IRTC partners with SpiceJet :** Railways have entered into a tie-up with SpiceJet. It enables a train traveller whose ticket is wait-listed to cancel the train ticket and instead get on to a flight by paying some incremental fee.





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