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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

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   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

FDI IN AVIATION: WILL IT SERVE AS A GAME CHANGER FOR INDIAN AIRLINES INDUSTRY?

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ABSTRACT

Connectivity is the backbone of today's global economy as it brings people to business, tourists to vacation destinations and products to markets. All are significant to India's development. Instead of flourishing and delivering economic benefits, India's aviation industry is struggling and recovery is hampered by high taxes, inadequate infrastructure, lack of trained human resources, high costs and restrictive investment policies. The opening up of the Indian aviation industry for foreign investors have opened up new doors and new desires to revive the industry but still many analysts doubt the ability of foreign airlines to rejuvenate the domestic airlines as most airlines are facing losses due to higher costs and taxes. In such a scenario, why would any airline come to India unless it has a feasible business model that would give a strategic advantage?

KEYWORDS

FDI, Foreign Direct Investment in Indian Aviation, Indian Aviation Industry, Future of Indian Aviation Industry.

INTRODUCTION

Connectivity is the backbone of today's global economy as it brings people to business, tourists to vacation destinations and products to markets. All are significant to India's development. Instead of booming and delivering economic benefits, India's aviation industry is struggling and recovery is hampered by high taxes, inadequate infrastructure, lack of trained human resources, high costs and restrictive investment policies.

The aviation sector is one of the vital economic drivers for prosperity, development & employment in a country. Aviation sector in India handles a propos 2.5 billion passengers across the world in a year; moves 45 million tonnes (MT) of cargo through 920 airlines, using 4,200 airports and deploys 27,000 aircraft. In the coming 10 years India is likely to be among the top 5 nations in the world with respect to aviation sector.

THE CURRENT ENVIRONMENT

In 1994 India's Air Corporation Act of 1953 was repealed giving private airlines the opening to schedule serviced flights. Following this repeal, a host of new airlines have sprung up to meet India's need for air travel. India still remains notably underpenetrated in the civil aviation sector: at present there are only 0.52 departures per 1,000 people in India and less than 2% of Indians travel by air each year. However this creates a huge opportunity as India has 1.2 billion people and an intensifying and upwardly mobile middle class. Domestic passenger traffic crossed the 60.7 million mark at the end of 2011. Domestic passenger growth year-on-year was 17.2%, in-line with the year-to-year increase expected from a rapidly growing emerging economy with a relatively small passenger base. India's domestic passenger growth is estimated to boost by roughly 15% per year by 2020. This growth rate, if sustained, would put domestic air travel at over 210 million domestic passengers per year by 2020.Despite these encouraging demographics, the Indian carriers have failed to translate the demand for air travel into profits. For the year ended March 2012, 5 out of the 6 major airlines in India were loss making. So, the original cause needs to be examined for the profitability shortfall, and groundwork needs to be laid out to comprehend where India's aviation market is heading.

REVIEW OF LITERATURE

1. "There is a high potential for Indian aviation Industry due to strong passenger traffic growth aided by buoyant economy, favorable demographics, rising disposable incomes and low penetration levels, However domestic airlines operate under high cost environment; intense competition has constrained yields; aggressive fleet expansions have impacted profitability and capital structures ", says **"INDIAN AVIATION INDUSTRY - Through turbulent times, FDI relaxation alone not a game changer" MARCH 2012 ICRA RATING FEATURE.**
2. **"Airline Cost Performance, An analysis of the cost base of leading network airlines versus no-frills, low-cost airlines (LCCs)", IATA Economics Briefing No 5: Mark Smyth, Brian Pearce, IATA, July 2006**, comment "Cost efficiency is critical for an airline's ability to compete and survive. Yet, this does not mean that every airline should seek to be the lowest cost operator. Instead, it is important that the costs appropriate for the standard of service provided to the customer are achieved in the most efficient manner".
3. **"Achieving High Performance in the Airline Industry", Annual Report of PWC, 2012,** says "the immediate future for airlines will be shaped by how well they cope with the current economic crisis. Over the long-term, however, we believe those carriers that demonstrate the characteristics presented in this report will continue to achieve high performance. In short, the manner in which they build market focus and position, distinctive capabilities and performance anatomy will ultimately separate the high-performance airlines from their peers".
4. **Air India CMD writes to aviation ministry through his article in Livemint.com**, "**Liberalized FDI policy could hurt local airlines"**, on Jan 10 2013 said "Air India has reason to be worried about its privately run rivals getting a boost from foreign airline investments. The troubled state-run firm is relying on a taxpayer-funded $5.8 billion bailout to stay in business".
5. **Times View in an article "Call on aviation FDI cap of 74% deferred" published in TNN** on Jul 17, 2013: "The decision to open up some sectors of the economy to greater foreign investment is a step in the right direction, coming as it does at a time when the country needs such investment to plug a yawning current account deficit. But the idea will not work if the government imposes unreasonable restrictions which put off investors. It should learn from its experience of opening up the multi-brand retail sector with stiff conditions that have deterred investors from coming to India. While ensuring that loopholes are not exploited, the effort must be to make implementation of rules investor-friendly. The rules themselves must be fair and transparent. Only then will the benefits flow".
6. "Those in favor of more liberal guidelines say more sophisticated technology in ground handling and flight operations will follow. More competition is likely to result in more competitive fares and better product and services and another potential benefit is better international connectivity", **FDI in aviation: 10 big facts , by Sandeep Phukan, Sunil Prabhu, Edited by Prasad Sanyal, September 14, 2012 for NDTV.**

7. **FDI in aviation must be backed with reforms in the sector, Sep 21, 2012, Agency: Zee Research Group**, "While FDI is welcome, Indian aviation sector will remain underutilized unless accompanying policy and infrastructure reforms are undertaken. The time for procrastination and squandering opportunities is over".
8. **FDI in Airline Industry: A discussion paper from 'A Note on FDI in Airlines' prepared by the Confederation of Indian Industry (CII) , 2012,** states **"**The key challenge for India's civil aviation sector is not 'more airlines', but more infrastructure. India allows 100% FDI in green field airports and this is a good example of both proactive government policy and also a deep focus on 'national priorities'. Additional airlines and foreign owned carriers will certainly mean more aircraft & more congestion".
9. **Key Sectors for FDI in India: Airports and Ports** published on 25th June 2013 by **Dezan Shira & Associates** in **India Briefing,** "Continuing with our series of key sectors for foreign direct investment (FDI) in India, this article provides an overview of foreign investment in airports and ports throughout India. As the government prioritizes the development and refurbishment of national infrastructure, investment into India's airports and ports is an increasingly attractive option for investors looking to tap into India's market".

STATEMENT OF THE PROBLEM

Although connectivity is the need of the day in today's globalized world, India's aviation industry is struggling and is unable to keep pace with their global counterparts. In spite of several positive factors like growth in business, growth in passenger traffic etc., the progress and growth is being hampered by high taxes, inadequate infrastructure, lack of trained human resources, high costs and restrictive investment policies.

The issue which becomes important in this scenario is whether FDI in domestic airlines industry will be able to bring about a change in our domestic aviation industry?

OBJECTIVES

1. To study the need for FDI in Indian Civil Aviation.
2. To analyze the sectoral loopholes in our aviation industry.
3. To analyze the market requirements of our aviation industry.
4. To study the challenges faced by the Indian airlines companies due to changing market scenario.

CHALLENGES IN THE INDIAN AVIATION MARKET

In spite of the robust demand for air travel, the following factors have driven the airlines into losses:

1) Inability of the Indian airlines to accomplish cost parity with their global peers - It is important that the Indian airlines accomplish cost parity with the rest of the world to ensure the viability of the industry. The higher costs from taxes and infrastructure bottlenecks have not been able to be passed along to customers, leading to an erosion of the Airline's balance sheets, which in turn raises the operating costs of running their business. Aviation fuel tax (AFT) is a major worry for the airlines. The Indian airlines pay almost 60% more for fuel than their counterparts in international markets as it has a number of layers of tax. Also, Infrastructure bottlenecks create supplementary costs for the airlines. For example, the re-built Mumbai airport was engineered to handle a normal annual passenger load of 29 million passengers per year. According to the Airport Authority of India, the total Number of passengers handled for the 2011-12 year was 30.75 million and this is set to amplify meaningfully going forward. In addition to the physical constraints of the airport there are personnel constraints in the aviation industry. India requires 2,200 qualified air traffic controllers and currently only has 1,700. Since customers consider an airline's punctuality metric when choosing carriers, the airlines have been modifying the scheduled block hours. The times reported are often longer than the Directorate General of Civil Aviation's uniform block flight times. This creates havoc for the air traffic controllers. The infrastructure bottlenecks convert into higher costs for the airlines. In addition to these regulatory and structural constraints, India also has one of the highest borrowing costs globally. According to IMF data, the cost of borrowing in India was about 12%. Since investors demand a risk premium to reimburse them for the added risks of investing in the aviation business, so the real cost of capital is even elevated. Adding additional layers of inefficiencies and taxes on top of these costs creates a challenging atmosphere for the Indian businesses.

2) Imbalance between the supply and demand for aircraft in India - The number of aircraft in India competing for passengers has continued to outpace the rate of new passengers. The demand for aircraft, as measured by the revenue per passenger kilometer, has grown rapidly in India; however, the supply, as measured by the available seat kilometer, has grown more rapidly than demand. Additionally, over the last decade the load factors for all domestic airline companies have remained below industry standard load factors of 80% or higher. The Break - Even load factor is the percent of seats that need to be filled at the airline yield rate to break-even. When we look at Jet Airways, we can see their break-even rate is at or above 80%, while their actual seat factor is time and again below this needed hurdle rate. The airlines have not allowed the demand for air travel to catch up before adding up new aircraft to their fleet; this in turn causes them to drop fares to increase load factors, causing the competition to do the same in an ongoing negative spiral.

3) Lack of differentiation within the domestic carriers leading to intense competition - The lack of differentiation between the domestic carriers has forced them to compete on price. Following on from the point above, the airlines have shown that they are keen to price fares below their breakeven rate, Compounding losses for the sector. The percentage of Indian travel classified as low cost has continued to add to from 1% in 2004 to an amazing 70% and growing as of 2011.Price competition has accelerated as the legacy carriers and new airlines in the industry have rushed to hold closer the low cost carrier model. Hence, there are multiple airlines competing on price that have no cost advantage in this space.

4) Non-implementation of standard risk management practices by airlines management - Management has not implemented standard risk practices in the airline industry. In 2007 the Federal Reserve Bank of India removed its ban on fuel hedging, yet airlines have not started hedging their fuel exposure in a meaningful way. Fuel costs are often the airlines largest cost at 40-50% of operating costs and are notoriously erratic. Since Indian airlines have not embraced hedging as a way to mitigate risk, they expose themselves to swings in commodity and foreign exchange prices, over which they have no control. By implementing prudent risk management, the airlines could structure their balance sheet to protect owners' equity from the vagaries of the market. The hedged balance sheet removes the basis risk caused by currency exposures and fuel costs. It is significant to point out that most airplane leases are payable in a foreign currency and that fuel costs are typically payable in U.S. dollars. This means that the weakening Rupee increases operating costs. The current practice of the major Indian airlines is to leave these risks unhedged. As we all know that the U.S. dollar has continued to build up against the Rupee over the prior years. Simultaneously the (ATF) fuel price has continued to increase from the 2009 (relative) lows. Hence, both risks have been allowed to eat away the industry profits; weakening the airlines financial position.

5) Price wars among the various players including India's flag carrier - The participants in the industry, including India's flag carrier are engaged in a price war. Many of the private carriers boast better performance metrics, and have lengthened rapidly at the expense of Air India. In an attempt to regain market share, some of the players, including Air India, have often belligerently priced tickets lower their breakeven rates. Air India has relied on the fact that it is a subsidiary of the Indian Government to streamline obligations on more favorable terms, and for further equity infusions by the Indian Government. The propping up of Air India, at the expense of the Indian taxpayer, enables Air India to continue its predatory pricing initiative. The net result of the Government backstop is the destabilization of the Indian airline industry, and a loss of confidence by potential investors. The market share amongst the Indian carriers remains uneven, and continues to realign amongst the players. The long-term secular growth of aviation in India should allow a handful of players to grow and thrive.

6) High levels of leverage of the carriers - The Indian airlines tend to have an elevated level of financial leverage. The financial leverage appears, both on and off their balance sheets. The use of the sale and leaseback method for acquiring planes is common internationally, but Indian airlines have generally followed this route without regard to a sensible structuring of the capital stack. A sale and leaseback is the selling of an aircraft to a third party who then leases the plane back to the company. The leasing company earns a return for captivating the market risk of the aircraft as well as providing the leasing service to the company. This method is perfectly practical when the goal of the airline is to maintain their financial flexibility, or manage other risks associated with heavy capital investments.

For example, in Jet Airway's fourth quarter 2012 earnings results conference call, KG Vishwanath pointed out that Jet Airways was planning on selling 10 -12 airplanes in 2013 ; the sale would be structured as a sale leaseback to try to raise USD $200 million. Management's reasoning for selling these assets into the sale and leaseback structure was to pay down costly Indian debt. However given their Auditors statement that Jet Airways did not have the capability to raise cash, it is possible that the attraction for management to use these proceeds for operating needs will likely happen. Given the dire losses being taken in the Indian aviation industry it is important to examine if the airlines are turning to the sale and leaseback method as an earnings/loss smoothing mechanism at the shareholders expense.

FDI IN INDIAN AVIATION: AN ATTEMPT TO BOOST THE AILING SECTOR

Recently, government permitted 49 percent FDI in the civil aviation sector, in order to revitalize the chronic sick industry of the country. Though earlier also FDI in civil aviation was allowed but foreign airlines were excluded from investing in domestic airlines. Foreign airlines were allowed to participate in the equity of companies operating cargo airlines, helicopter and seaplane services, but not in the equity of an air transport undertaking operating scheduled and non-scheduled air transport services. The Government has now permitted foreign airlines to invest, under the Government approval route, in the capital of Indian companies operating scheduled and non-scheduled air transport services, up to the limit of 49 percent of their paid up capital.

In year 2011-12, except Indigo, all airlines have posted losses. Kingfisher Airlines, which is burdened with a debt of over Rs 7,000 crores, has been in the forefront of pushing for permission to allow foreign airlines to invest in domestic carriers. Most of the Indian carriers are suffering losses because of high taxes on jet fuel, rising airport fees, costlier loans, poor infrastructure, rising ATF prices and cut-throat competition.

Though Kingfisher Airlines has been pushing for FDI to boost the sector, Jet Airways and Indigo have expressed reservations saying allowing global players in would lead to cartelization and takeovers of Indian carriers. However, with 49 percent cap, takeover by foreign carriers is unlikely to happen.

Now the question is whether FDI in domestic airlines by foreign airlines will be able to change the fortunes of the sector or not. Given the fact that except for Indigo, all airlines posted losses in the past fiscal, there are genuine problems with the sector. While on one hand, poor infrastructures, high airport charges, lopsided tax structure and cut throat competition are plaguing the industry, inefficiencies in the management of few airlines cannot be ruled out. In 2011-12, Indian carriers posted a combined loss of 12,000 crores.

Many analysts doubt the ability of foreign airlines to rejuvenate the domestic airlines as most airlines are facing losses due to higher costs and taxes. In such a scenario, why would any airline come to India unless it has a viable business model that would give a strategic advantage?

The problem of the industry right now is of profitability and not only investment-related. The profitability-related issues need to be addressed primarily, which clearly cannot be done by foreign carriers as they cannot change the tax or the fare structures here. In such a scenario, it is unlikely that a foreign carrier will accept the liability of Rs7000 owed by Kingfisher Airlines. Earlier in 2001, when Government of India tried to sell out the loss making national carrier, it had no takers and disinvestment plans were shelved due to the absence of buyers.

Despite aforesaid apprehensions, there is no doubt that aviation sector will certainly get the benefits with the capital infusion. Allowing FDI in aviation would pave way for much-needed equity infusion in Indian carriers, which were in dire need of funds.

Foreign carriers such as British Airways and Virgin Atlantic Airways Ltd already have expressed interest in investing in Indian carriers. Further, there has been a need to consider financing options available for private airlines in the country, for their operations and service up gradation, and to enable them to compete with other global carriers. Denial of access to foreign capital could result in the collapse of many of our domestic airlines, creating a systemic risk for financial institutions, and a vital gap in the country's aviation infrastructure.

FDI IN INDIAN AVIATION: AN IMPACT ANALYSIS CASE STUDY

Irrespective of the ability of foreign carriers to rejuvenate the aviation industry, FDI by foreign airlines in domestic airlines is a welcome decision. India's airlines need capital to grow. While the 49% cap on foreign investment aligns with general practice globally, the complete exclusion of foreign airlines from investing in Indian carriers is unique to India.

Given that foreign airlines could own 100% of mass rapid transit systems, ports, hotels, toll roads or tunnels, the restriction makes little sense alongside India's other foreign investment policies. Moreover, there are indications of policy reforms in the aviation sector to set up of a Civil Aviation Authority which would revamp the aviation regulator. Now, let us analyze how the move will affect various stakeholders:

AIRLINES

1. The move is expected to provide much-needed cash flow to private airlines.
2. It is likely to result in an improvement in technology, both in terms of ground handling and flight operations.
3. It will bring in the best international management practices.
4. The aviation industry is divided. More successful players such as Jet Airways and Indigo have expressed their reservation in the past. There are also fears that bigger carriers may resort to cartelization. Loss-making airlines, of course, see FDI as the knight in shining armour.
5. There are also fears that this may lead to a takeover of Indian carriers.
6. Indian Airline companies' positive reaction is understandable as foreign equity flow will help them reduce debt. Total combined debt of all the airline companies in India is about 48,000 crores.
7. Spice jet, the only profit making company in India, will look forward for some strategic investors and make their company look more attractive to the current Aviation sector scenario in India.
8. Air India will be the greatest beneficiary as government will look forward to divest its stake in the airline which would help them to generate revenue.

GOVERNMENT

1. Implementing the proposal will mean likely political opposition from few political parties especially Government's strongest ally Trinamool Congress.
2. Security is another concern. The government will have to keep a tab on dubious investors entering India through this route.

PASSENGERS

1. Fares may become competitive
2. Quality of service may go up due to competition
3. Better international connectivity
4. The outbound traveler will have more varied choices, if they want to travel to far destinations.

RELAXING FDI NORMS IN AVIATION: PROS AND CONS

Greater FDI in aviation is reckoned by experts to offer certain inevitable disadvantages to the Indian aviation companies and foreign enthusiastic investors in the aviation sector of India, and also to Indian professionals and other people, besides some essential and outstanding advantages. In the following are given pros and cons of FDI in aviation sector in India.

PROS OF FDI IN AVIATION

- New airlines may come up in India.
- Increased competition will be a boon for customers as their will be cheaper airfares, better and lavish facilities & latest technology.
- FDI will infuse cash flow into the bleeding Indian airline industry.
- Government will gradually reduce its equity in PSUs in the sector.
- Better International Connectivity.
- FDI will improve the current account deficit situation of the airline sector.

- There will be greater income to the aviation sector of India by domestic and international tourism, and other related sectors of Indian economy.
- Better will be chances for employment in the aviation sector of India.
- FDI in aviation will have a positive bearing on all players involved in tourism industry - be it hotels, tour operators or travel companies.
- FDI is the safest form of fund raising.
- It will also prove beneficial in terms of visa fees, as it will be easier to obtain the visa at a lower price.
- It will also be beneficial in terms of exploring destinations.
- Travel Industry should gain as well, when the market grows, the bottom lines should improve for travel trade industry too.

CONS OF FDI IN AVIATION

- Rising ATF prices has increased the air fare in the last two years. The move to allow FDI may result in further increase in air fare making air travel costlier for common man.
- Government has already structured a bailout plan for debt-laden Air India. However, it is difficult to say whether FDI in aviation will help the Indian national carrier.
- Delhi airport has increased its tariff structure by 353 percent recently. This will result in increasing the air fare and will make the airport costlier for Indian carriers. Analyzing the current tariff structure at Delhi Airport, allowing FDI in aviation may result in increasing tariff at other airports as well.
- Current Indian aviation industry is facing infrastructure shortage to handle the existing fleet of Indian carriers. The airports in tier-II and tier-III cities are still under development due to fund and land issues. FDI in Aviation will demand huge infrastructure to accommodate the big size aircrafts and upgraded technology of the foreign carriers.
- Fear of a takeover of Indian airlines by the Global giants.
- Security is a major issue. Government will have to keep an eye on dubious investors entering India through this route.
- UPA Government will face opposition from its strongest ally Trinamool Congress.
- The business competition in the Indian aviation market will be more and intense, and will favor the big players. The presence of greater number of aviation companies will reduce the overall profitability.
- Cost of employment for highly qualified and talented aviation professionals will rise regularly. Indian aviation companies will need to become more efficient, circumspect, and professional.
- The money will be pumped from abroad and they will be controlling the market. More and more company collaborations will take place, which the traditional travel agents won't be able to compete with.

KEY CONDITIONS SET BY GOVERNMENT FOR FOREIGN INVESTMENT: AN ANALYSIS

In India the civil aviation has not been profitable for most of the carriers and therefore, after opening of the skies for the private players, there may be quite a few instances where the private airlines have bundled up in a short span of time. Given the present state of affairs of the carriers, most of which are not doing well on the financial grounds, it is only a guess game whether anyone would be interested in taking up the stake through the FDI route. The experts from this school of thought are of the opinion that the current state of mess is the result of extravagant policy measures of the airlines and their poor management.

The Government has this time carved out the policy in such a manner so as to give extra protection to Indian Airlines. The announcement by the Committee lists certain specific conditions which form the basis for permitting FDI up to 49% by a foreign airline.

Firstly, for a Company (in which 49% FDI has been allowed) to obtain a scheduled operator's license, its principal place of business and registered office must be in India, the Chairman and at least two- third of the directors of the company must be Indian citizens and substantial ownership and effective control should be in the hands of Indian nationals.

Secondly, any foreign national who will be associated with Indian scheduled or non-scheduled operations, i.e. who will be appointed to the board of the Indian airline which has received FDI, must also go through and obtain security clearance, presumably from the Ministry of Home Affairs before beginning any work in India. Lastly, the Committee has also mentioned that all import of technical equipment as a result of the investment under the 49% limit must be approved by the Ministry of Civil Aviation. Though these specific conditions have been mentioned, the directives for implementation are yet to be announced.

From a general reading of the conditions mentioned by the Committee, it is apparent that the grant of FDI to foreign airlines is simply to bolster the ailing Indian Aviation sector by access to another avenue for funds and equity infusion. It is evident that the intention is to ensure that control and management of Indian Scheduled airlines stays in Indian hands. While the permission for FDI by foreign airlines has been long anticipated for rescuing the aviation industry in India, whether this strategy will succeed remains to be seen.

CHALLENGES DUE TO FDI IN INDIAN AVIATION MARKET

Travel professionals believe there are certain drawbacks of FDI in aviation for the travel agents. Many believe that FDI in aviation will also help India to develop to a certain level, but majorly it poses many challenges for our Indian Aviation like:

1. Because the foreign companies will control the entire airline field, 49 per cent FDI in aviation will enable international carriers to modify the policies as per their benefit, and definitely it will affect the Indian travel trade.
2. FDI in aviation will not provide a permanent cure to the problems being faced by the travel agents.
3. The travel agents should ask for more government help. They should teach their staff about the importance of both inbound and outbound tourism and the staff should be capable enough to understand the same. There is large unorganized sector of travel agents and tour operators. They should be brought to a very professional level.
4. The travel trade has to gain a professional service status, airlines must introduce/facilitate credit card sales like they do in western world, and many more such issues need to be addressed by the trade bodies."

ROADMAP FOR FUTURE ADVANCEMENT FOR INDIAN AIRLINES INDUSTRY

Let us now discuss a road map to restore India's aviation industry back into profitability. For the same, we will create an exemplary/ideal business policy model for our aviation industry to overcome several challenges for a turnaround to happen, since capital infusion can seldom be a solution to a weak business model. We now lay out these factors; when/if implemented will have the needed impact of turning the Indian aviation industry around:

1. The Indian Government needs to reassess its ban on foreign direct investment by airline companies and lift the ceiling on the percentage of investment allowed.
2. A regulatory body needs to be established that addresses predatory pricing and product dumping. The regulatory body needs to address the basic supply and demand imbalance.
3. Taxation of the airlines as well as airline costs (e.g. ATF) needs to be brought in line with global industry norms.
4. Aggressive expansion in airport construction needs to be initiated.
5. Airlines need to differentiate themselves by product offering.
6. The Indian Government needs to create a fair and level playing field for the airlines to compete.
7. India is severely lacking in experienced personnel in the aviation sector. If the Indian Government were to allow FDI from the aviation sector, this would bring with it a seasoned talent pool.

8. The industry is lobbying for a predatory pricing commission to be put in place. This step may be needed to stabilize the industry, and to provide confidence to potential investors. The psychology of misjudgment suggests that investors become more risk averse in a bear market, and more risk tolerant in a bull market. This means that investors without domain experience in aviation will likely shy away from making such investments.
9. India's market participants and Government agencies need to address the tax structure that is heavily penalizing the airline industry.
10. Only FDI alone can't revive the aviation sector in India because issues like pricing and marketing strategies need to be resolved as well. Proper marketing strategies are required along with the FDI to boost the sector.

The majority of airlines assets are stressed, which present an opportunity to enter this market at the right entry point. Recapitalizing and restructuring a company could significantly reduce financing costs to support returns. Additionally, it would be necessary to implement a well-conceived plan by Government and Industry experts to ensure overall operating performance improves. Lastly, if/as several of the roadmap initiatives are implemented, the Indian Aviation Industry should be able to further improve returns. Such an investment strategy could lead to potential returns, which are quite satisfactory.

SUMMING UP

The recent FDI liberalization is indeed most welcome, both in terms of the relatively liberal framework and in terms of the clarity. Clearly, the importance of civil aviation is being recognized. It is also recognized that good airports, a choice of airlines and good ground handling facilities are integral parts of infrastructure and are needed if the growth rate is to be sustained. From that perspective, a holistic view of FDI, outbound regulations, tax issues including tax on aviation turbine fuel, etc., should be seen in an integrated manner. One hopes that political compulsions will not stand in the way of the growth of this important sector.

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