

14 BUSINESS REVIEW

Low-cost flying in for the long haul

IndiGo, budget rival SpiceJet are keen to replicate the low-cost model in international operations

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NEW DELHI

Barely hours after the Union Cabinet gave an in-principle approval to national carrier Air India's strategic disinvestment late last month, India's biggest low-cost airline IndiGo jumped into the fray showing interest in taking over the debt-laden, loss-making airline.

However, at the heart of IndiGo's interest lies its strategy to start long-haul international operations replicating a successful low-cost model which the airline follows on domestic routes. The airline's promoters made it clear – the plan is to start long-haul international operations, with or without Air India.

In May, another interesting development in the aviation space unfolded when low-cost airline SpiceJet's chairman and managing director Ajay Singh said he planned to introduce a direct Delhi-London flight at ₹30,000 for a round trip. The price quoted by Mr. Singh compares with starting fares of ₹40,000-₹45,000 being offered by other airlines on this popular route. He said the airline would look at unbundling services such as food, beverage and Wi-Fi from the fare component, essentially sticking to a low-cost model on a longer duration international flight.

A seat

The difference between a low-cost and a full-service carrier is simple. Low-cost airlines sell only the core product i.e. a seat to travel from one point to another to the passenger as a part of the airfare and passengers need to pay separately for the frills. Full-service airlines offer passengers a host of value added services, including in-flight meals, free beverages, and lounge for frequent fliers, among others but generally at a higher fare as these elements are packaged together.

In India, the market share of low-cost airlines such as IndiGo, SpiceJet and GoAir has expanded from about 24% in 2006-07 to 65% in 2015-16 compared with full-service airlines such as Jet Airways and Air India.

The compounded annual growth rate (CAGR) of 11.7% for low-cost airlines in the



Take-off point: There is enough room in the long-haul market to support both full-service carriers and low-cost long-haul model, says Amber Dubey of KPMG. *AFP

nine-year period compared with an 8% dip for full-service airlines shows that the former now occupy the imagination of the Indian flyer.

But can the magic of a low-cost model in flights of between one and three hours duration be replicated on a 10-12 hour journey on international sectors?

At least this is what the promoters of IndiGo, with a 40% market share in the domestic market, envisage. "Just like the low-cost model disrupted the short-haul, full-service legacy carriers starting a few decades ago, we believe that international long-haul markets are ready for the right type of low-cost operations," IndiGo founder Rakesh Gangwal told analysts on a conference call.

Analysts feel that the low-cost business model has the potential to enter the long-haul international market. "Given the sheer variety of passenger segments, needs and purchasing power, there is enough room in the long-haul market to support both full-service carriers and low-cost long-haul model," said Amber Dubey, partner and India head of aerospace and defence at global consultancy KPMG, "This model has attracted a lot of interest and we can expect that globally, it may follow a similar trajectory that low cost carriers did in the domestic market, albeit at a lower growth rate."

Global airline executives do not foresee a threat from the low-cost model on long-haul routes. "Some passengers want extra baggage, seat choice, food and beverage

on long-haul flights packaged together for a little comfort," Oman Air chief Paul Gregorowitsch told *The Hindu*.

"However, I think it is creating an incremental demand like the low-cost model did on shorter routes. So, people not taking long-haul flights before can now afford to buy cheap tickets and take some discomfort," he said.

"But passengers who have travelled previously on full-service airlines will not prefer to sit completely cramped in a tight seat without any further services. I would say, it is more of an incremental demand than cannibalising of the full-service market," Mr. Gregorowitsch added.

Growing market

Globally, the business model of airlines is changing "scary fast" with IAG [International Airlines Group] unveiling last month LEVEL, the 15th long-haul low-cost operations to be introduced in the last five years, according to global aviation consultant CAPA.

Airlines including Air Canada, Hainan Airlines, Korean Air, Lufthansa, Qantas, Singapore Airlines and IAG have subsidiaries with long-haul low-cost operations. European airline group Turkish Airlines is evaluating a similar business model.

"The long-haul low-cost sector seems to have turned the corner and quieted the initial sceptics," CAPA said in its report titled "Global Strategy Report May-June 2017" released earlier this

month. "It is no longer experimental and is becoming more mainstream. The fact that all three main European airline groups – Air France, IAG and Lufthansa – have now joined the party is the biggest testament yet to the future of a model that until fairly recently seemed questionable."

The size of the long-haul low-cost model has started to become significant with the sector surpassing 500,000 weekly seats for the first time, the report mentioned. This represents 0.5% of the global market but the share will grow to more than 1% within a year or two, CAPA said. In Asian markets, the market share is significantly high – Malaysia at 7% and Singapore at 4%.

Indian context

The low-cost long-haul model may also give Indian carriers like SpiceJet and IndiGo an opportunity to regain their market share of Indian passengers from their foreign counterparts.

Roughly 38% people fly in and out of India through Indian carriers and the remaining 62% on foreign carriers, as per official estimates in January-March this year.

A significant share of traffic from India to West Asian countries is the long-haul traffic to U.S. or Europe.

"Direct non-stop low-cost long-haul flights from India in terms of frequency, fares and good quality services is one of the most effective ways to combat the domination of the Gulf carriers," Mr. Dubey said. He contended that this business model

would also provide opportunities for additional revenue generation for the airlines. "The demand for ancillary services like meals, pillows, blankets, wi-fi, in-flight entertainment, lounges, etc. in low-cost long haul will be far higher than short haul domestic flights," Mr. Dubey opined.

Way forward

For passenger convenience, analysts say, low-cost long-haul flights should not be typically more than 9-10 hours in duration. Across the globe, majority of such flights are mainly in the range of 5-10 hours. However, CAPA said long-haul low-cost airlines are starting to operate more routes of 10 hours or longer. Norwegian's London-Singapore route will be the longest low-cost flight historically, covering a distance of 10,841 km in about 13 hours.

"Routes of five to 10 hours have so far been the sweet spot for the long-haul low-cost model. The economics of medium-haul routes are generally more attractive than long-haul routes," CAPA said.

According to a report by Netherlands Institute for Transport Policy Analysis, route choice and a focus on uncontested markets are key factors for success of long-haul low-cost airlines. "In order to compete on long-haul with the incumbent FSCs (full service carriers), LCCs (low cost carriers) will have to adapt their business model. Consequently, the cost advantage over FSCs will be lower compared to short-haul flights. The total cost difference with full-service carriers is therefore much smaller on long-haul than on short-haul," it said in its report titled "the potential of the long-haul low-cost business model and its impact on the Netherlands."

Air Passengers Association of India (APAI) sees the model scoring with Indian passengers. "It will definitely find acceptance. On a long-haul flight, passengers will also get option to choose for hot meals in advance. Passengers essentially want flight ticket at a cheaper price and it will be a boon to Indians travelling overseas," APAI national president D. Sudhakar Reddy said.

CEOs earn up to 1,200 times of average staff

Median employee pay fell or remained almost flat last fiscal

PRESS TRUST OF INDIA
NEW DELHI

A huge pay gap between CEOs and other employees at Indian companies has come to the fore, with the biggest listed blue-chip firms doling out to their top executives salary packages of up to 1,200 times of their median employee remunerations.

An analysis of remuneration disclosures made by top listed companies forming part of the blue-chip index Sensex – under directions of the capital markets regulator SEBI – shows that the pay packages of senior-most personnel such as CEOs and executive chairmen continue to remain high and rose further at most private sector firms during 2016-17.

On the contrary, the median employee remuneration fell or remained almost same during the last fiscal, while the ratio of the top executive's pay to the median employee remuneration remained at astronomically high levels of hundreds of times in many cases.

Salaries in PSUs

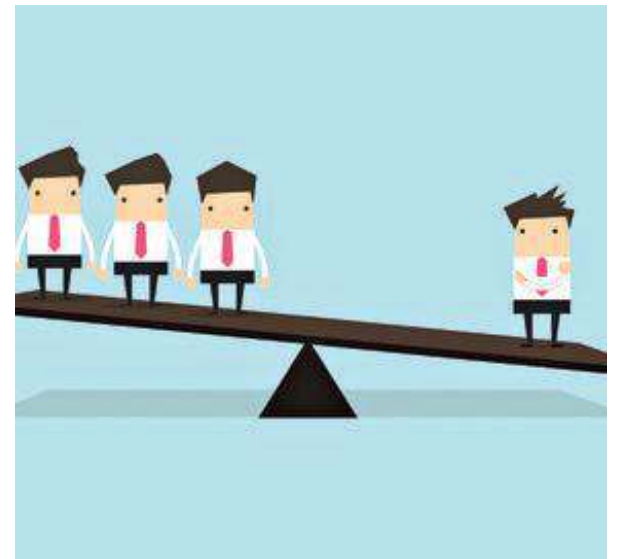
The public sector companies (PSUs) show a totally different picture with their chiefs getting salaries of just about 3-4 times of their median employee remunerations.

While the rules do not put any restrictions on the companies regarding how much more they want to pay their top executives vis-a-vis an average employee, the SEBI regulations require most listed companies to annually disclose various remuneration ratios to help the investors know about salary practices at the firms in which they have invested.

However, salaries of top executives, especially in case of those related to promoter groups, typically require the approval of the companies' boards, various committees and shareholders.

Besides, companies with inadequate profits need the government's approval for any excessive salaries paid to their top executives.

As per the rules, the remuneration payable to any



Widening gap: Pay packages of top personnel rose further at most private firms during 2016-17. *GETTYIMAGES/ISTOCK

one managing director or whole-time director or manager, cannot exceed 5% of the net profit of the company. If there is more than one such director, the remuneration cannot exceed 10% of the net profit to all such directors and managers taken together.

Among the 30 Sensex firms, at least 15 have already disclosed an increase in the ratio of top executive pay with that of the median employee remuneration for 2016-17. Nine of the Sensex firms are yet to disclose these numbers and therefore the tally may go up.

Six Sensex companies have reported some decline in this ratio and these include Wipro (down from 260 times to 259 times), Infosys (283 times), Dr.Reddy's Lab (from 312 times to 233 times) and Hero MotoCorp (from 755 times to 731 times).

The country's most-valued firm Reliance Industries did not disclose this ratio in its latest annual report published on the website. While its chief Mukesh Ambani has capped his pay at ₹15 crore for many years now, the ratio was high at 205 times in 2014-15.

Among other major Sensex firms, TCS saw the ratio between top-paid executive pay and the median employee remuneration rise to 515 times (from 460 times in

previous year), while the same for Lupin stood at 1,263-times (though down from 1,317 times) for chairman. The ratio for the CEO at Lupin was much lower at 217-times.

At Adani Ports, the ratio was down to 42 times in case of Gautam Adani (from 48 times), while the ratio was much higher at 169-times for another whole-time director. The same for Bajaj Auto was also high at 522 times.

Banks lead

Among banks, the ratio was highest for HDFC Bank's CEO Aditya Puri (whose pay package rose by 20% to over ₹10 crore) where it rose from 179 to 187 times. Kotak Mahindra Bank saw the ratio rise from 42 to 48, ICICI from 100 to 112-times and Axis Bank from 72-times to 78-times.

At HDFC Ltd., the ratio for the CEO Keki Mistry rose from 88 times to 92 times, while the same for Chairman Deepak Parekh was much less at 17 times.

Among the companies which are yet to report their latest numbers, Larsen and Toubro had disclosed a very high ratio of 1,004-times for the fiscal 2005-16.

At ITC, the ratio rose from 427 to 508 times in case of Y. C. Deveshwar, who has now given up his top executive role, but the ratio for the current executive chief was much lesser at 59 times.

EXPLAINER

Payments bank: for the informal sector

MANOJIT SAHA

How is a payments bank different from a commercial bank?

■ There are two kinds of banking licences that are granted by the Reserve Bank of India – universal bank licence and differentiated bank licence. Payments bank comes under a differentiated bank licence since it cannot offer all the services that a commercial bank offers. In particular, a payments bank cannot lend. It can take deposits upto ₹1 lakh per account and it can issue debit cards but not credit cards. Commercial banks in India like State Bank of India or ICICI Bank, do not have any such restrictions.

What is the minimum capital requirement for a payments bank?

■ RBI has mandated the minimum paid-up equity capital for payments bank at ₹100 crore.

Where can a payments bank deploy its deposits?

■ Apart from maintaining Cash Reserve Ratio (CRR), these entities have to invest a minimum 75% of demand deposit balances in Statutory Liquidity Ratio (SLR)-eligible government securities or treasury bills with maturity of up to one year and hold a maximum of 25% in current and time/fixed deposits with other commercial banks for operational purposes and liquidity management.

Who all are eligible to set up a payments bank?

■ RBI permits non-bank Prepaid Payment Instrument (PPI) issuers, individuals and professionals, non-banking finance companies (NBFCs), corporate business correspondents (BCs), mobile telephone companies, super market chains, companies, real sector cooperatives that are owned and controlled by residents and public sector entities to apply for a payments bank licence. Setting up of a joint venture by a promoter with an existing commercial bank is also allowed.

How many payments banks have commenced operations?

■ Out of the 11 entities that received in-principle licence for opening payments bank,

7 entities received the final licence. Four payments banks have started operations – Airtel Payments Bank, India Post Payments Bank, Paytm Payments Bank and Fino Payments Bank.

INTERVIEW | D.J. PATIL

'I'm concerned about automation replacing jobs'

We need to aggressively invest in education, continued education and invest new dollars into entrepreneurship

PEERZADA ABRAR

India needs to be very concerned about cybersecurity and fake news as the country heads for the next elections, says former U.S. chief data scientist D.J. Patil. He says that the democratic process in the U.S. as well as countries like France faced cyberattacks aimed at stealing information and propagating fake news on social media to impact elections. At an event in Bengaluru, the first chief data scientist to the U.S. Government, appointed by the Obama Administration, says there is going to be a massive shift in cyberattacks which would increasingly be based on artificial intelligence (AI). In an interview, Mr. Patil talks about the impact of AI on the economy, jobs and cybersecurity. Edited excerpts:

What would be the economic impact of artificial intelligence?

■ We published a report, it is called the White House Report on artificial intelligence. It highlights the challenges that are coming ahead and one of those big challenges is that if you look at many economic assessments, they are all saying the radical displacement of jobs due to automation. A big component of that automation is robotics, another big component is machine learning, deep learning, AI-based type of technologies. We have to ask ourselves, as we get better automation overall, what is going to happen to the society. Bank tellers, e-discovery for lawyers and also the role and jobs for other areas such as self-driving cars and other vehicles. Where is this going?

We have to ask. We are seeing reports out of Foxconn where they are automating tremendous amount of their product lines. They were one of the large employers. What does that mean? Here in India, we have these large IT players,

those type of coding jobs specially developed towards testing or other things, I am very concerned that those are the jobs that are going to be replaced by automated processes.

Is this going to be a big concern in India? If so, how can it be addressed?

■ That is the conversation that needs to happen now. No one has an obvious answer. The one that we can all agree on is foundational, that we need to aggressively invest in education, continued education and the investment of new dollars into entrepreneurship. If we forget that some of these great companies didn't just come about because of the investment, Infosys came about because people had relentless drive not to give up. We need to make it easier for people to start new things and test those ideas, for those ideas to be acquired or combined with other ideas, new things to come about. We should celebrate the entrepreneurial spirit and reward it and challenge those



entrepreneurs to always work on societies and most pressing problems.

Amid this emergence of AI and data explosion, how can we uphold data security and privacy?

■ When I was (U.S.) chief data scientist, this is what I called on. For every training programme, ethics and security must be core part of the curriculum. It doesn't matter whether you are an economist, a computer scientist, a data scientist, a statistician, a physicist. You must have ethics and security as part of the core curriculum. Because, if you design a database, you need to know how someone is going to attack it, you also need to understand what are the ethical implications of how it may be designed and is this good or bad. We have to develop a language to start asking ourselves are we comfortable with the choices we make, so it starts from there. The sec-

Plant the next idea, try, try again, something would come out of it.

Is there any need for a policy for these new technologies in India?

■ (In the U.S.) we have policy guidance on AI, it is guidance that helps to figure out how we should think about things. But it doesn't specifically say you can or can't do

this. But it tries to provide the guidance in saying that the ark of technology is going so fast, that the policy is going to be needed to create guard rails for it rather than a very specific isolated process.

A lot of this data on social media platforms such as Twitter and Facebook is also leading to fake news and rumour-mongering, your comments?

■ I would encourage data scientists to play less with the social media data [and] play more with the local data. Have a direct impact on the people in the local community. I think that has a phenomenal opportunity to lift up problems and have a direct impact.

On the questions of other issues around news and the data that they are collecting, the question we should be asking more is how do we make sure that everyone has access to their data and what

are the rights and make sure you understand the rights of that data. We also have to remind companies that if they are not holding up to their end of the social bargain, that's when the regulations come in. And the regulations would come in such a draconian way that I am fearful that it would eliminate a large portion of things that other entrepreneurs wouldn't be able to tackle. I think India needs to be very concerned about the next democratic process around cybersecurity as well as fake news.

Do you see huge opportunities for AI start-ups apart from companies such as Facebook and Google which are dominating this space?

■ In the U.S. it is phenomenal. If you look at the investments in the Silicon Valley (in California), Silicon Slopes (in Utah), Silicon Alley (in Manhattan), Silicon Prairie (a take on the Silicon Valley, refers to one of several places in the U.S.).

This is phenomenal, we have all these investments. Many of those ideas would fail, that is okay, plant the next idea, try, try again, something would come out of it.

As long as people are trying and the youth are aggressively investing in the ideas, I am okay. I would encourage India to make it easier for people to invest, not just invest dollars but to invest time and energy in trying new things. Taking the risk, that is where it starts.