

Future Challenges For the Indian Market

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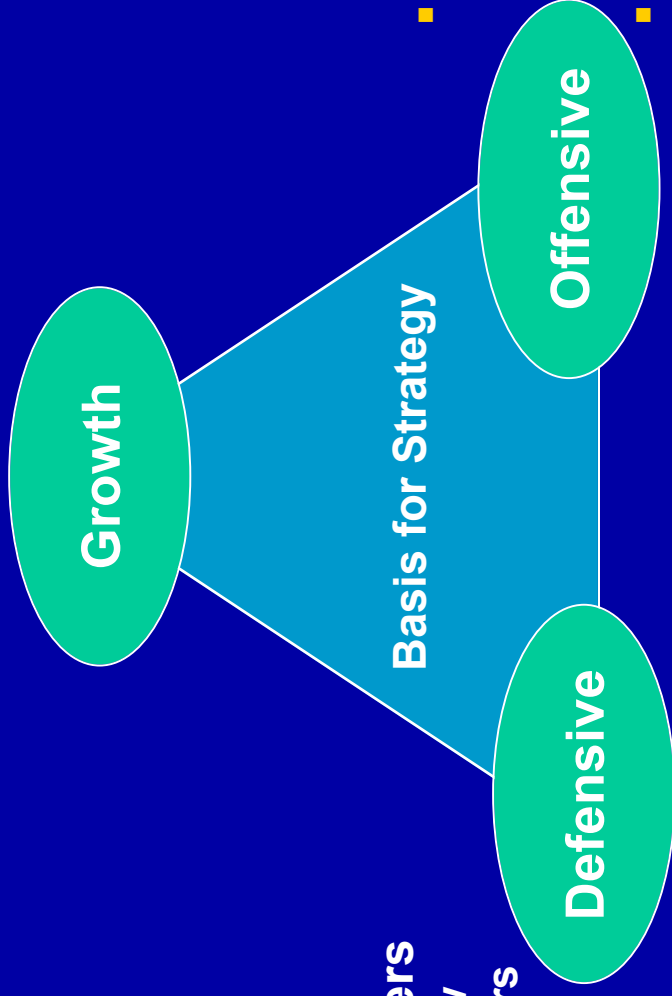
CEO Centre for Asia Pacific Aviation

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- **Governments' focus on tourism growth and regional dispersal**
 - stimulate economy
- **Rapid liberalisation of markets**
 - LCC start-ups entering
 - Flag carriers' limited ability to respond (culture, cost structure, decision-making, ownership)
 - New international routes from secondary ports
- **Travellers embrace the LCC model**
 - LCCs grabbing significant market share
 - Lower fares stimulating more air travel
 - LCCs growing the market: bus/train/car travellers flying

What strategies can airlines pursue....?

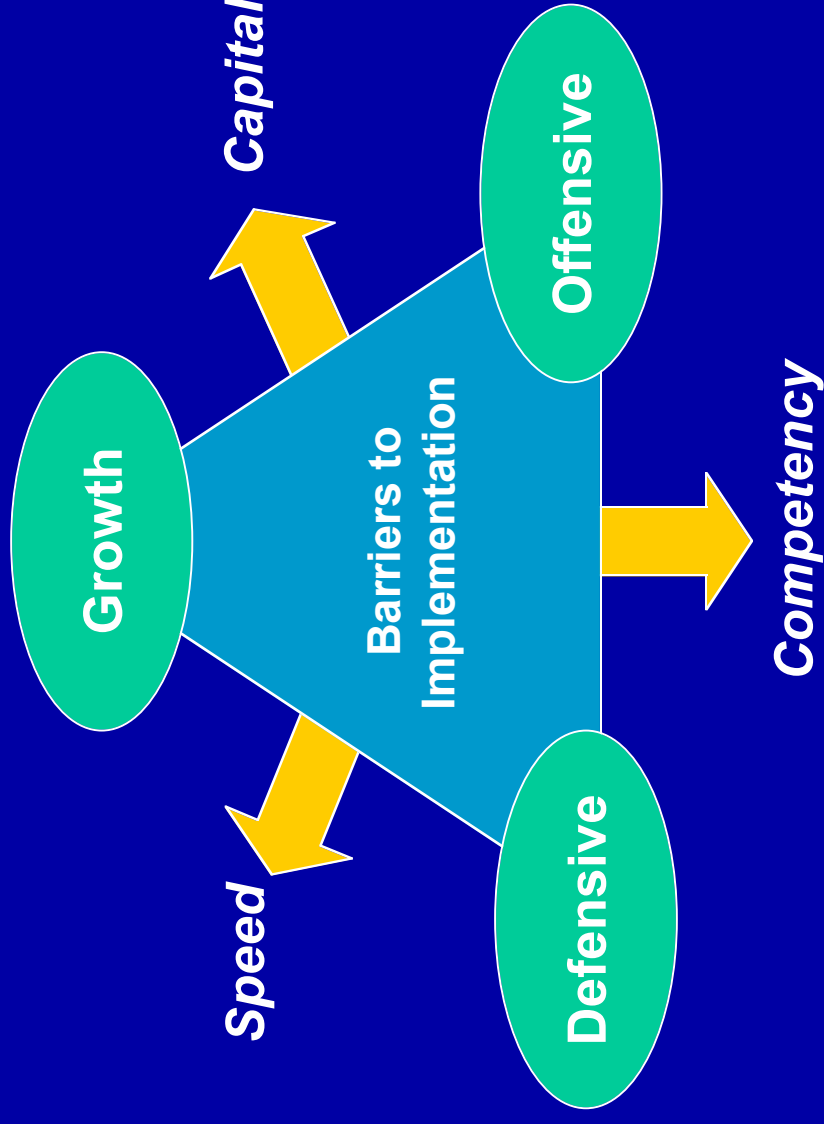
- Capture share of market growth
- Enhance shareholder value



- Retain customers
 - Potential “low fare” switchers
 - Premium pax
 - Feeder traffic for med/long haul network viability

- Contain the growth of competitors
 - LCC
 - Others?
- Take control of market
 - Distinct brands
 - Price leadership
 - Lowest costs

... and why do they find it so hard?

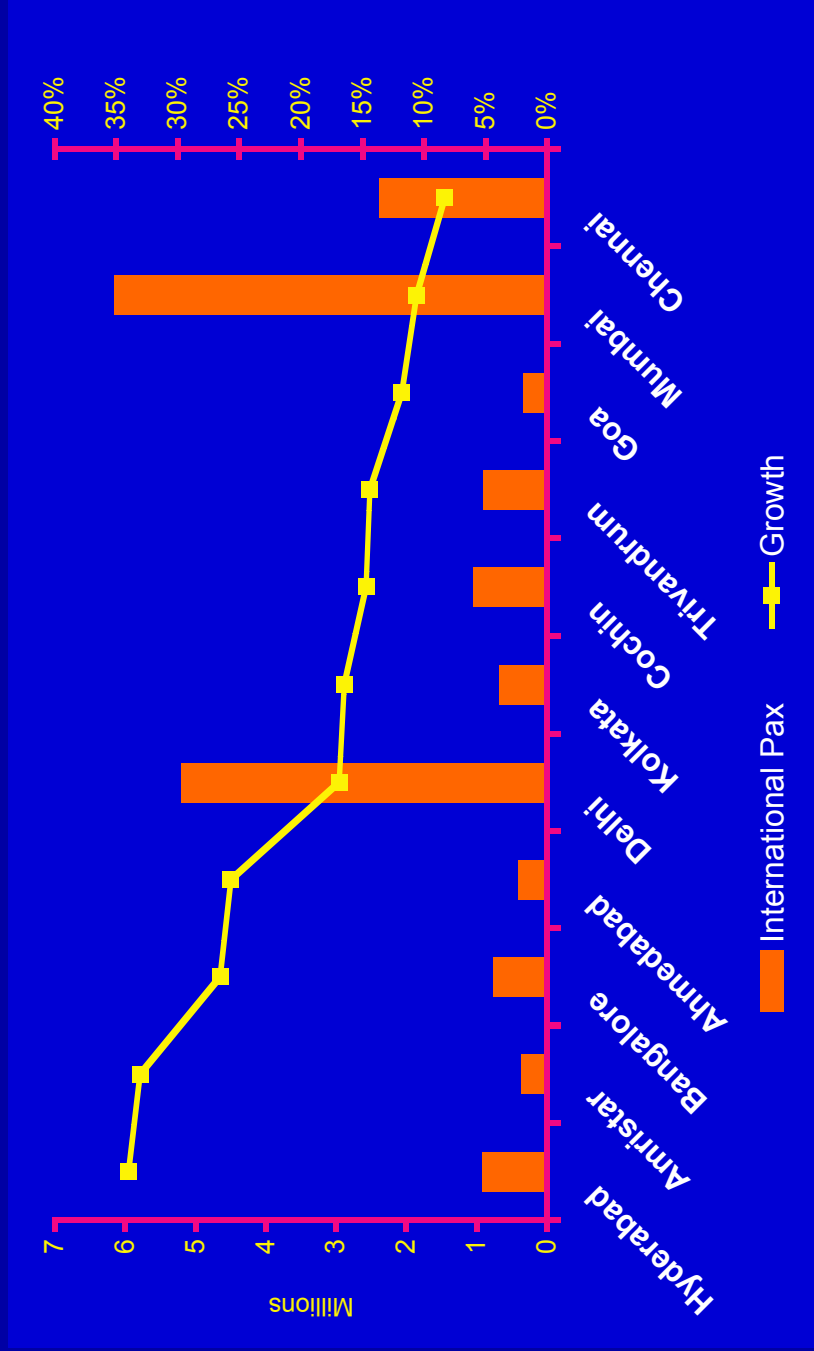


What are the market impacts on Legacy Full Service Carriers around the world?

- Loss of home domestic market to LCC start-ups
- Loss of inbound international market share to other New World Carriers due to deregulation, e.g. Emirates
- Pressure on home flag carriers to keep pace in investing in new capacity
- Movement away from single home carrier international hub with resultant network spread in demand
- Reduction in yields coupled with higher legacy costs (labour controlled)

Growth of Non Hub Airports

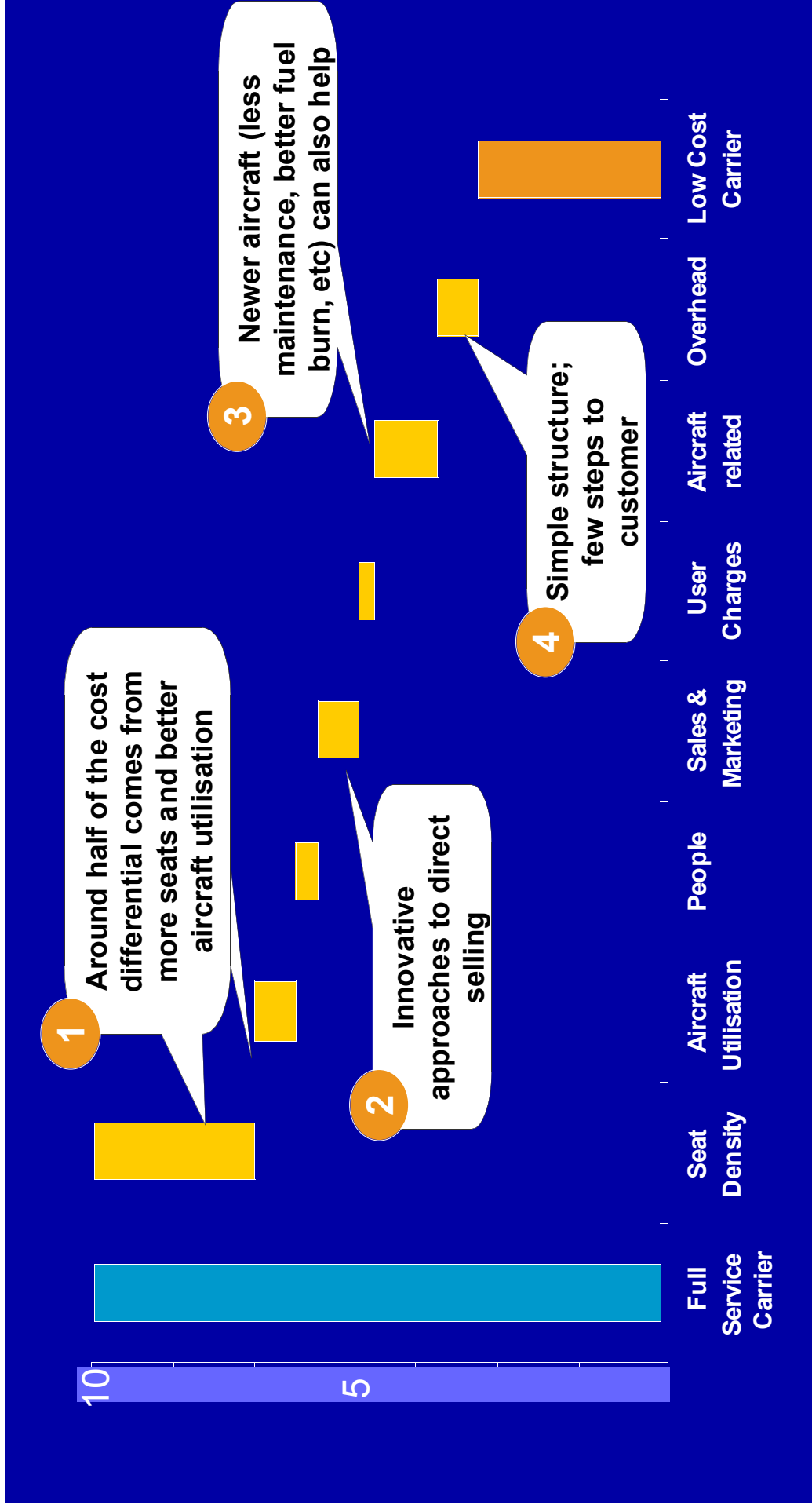
Passenger growth (year-on-year) at India's top 11 airports
(Apr-05 to Feb-06)



How are home legacy flag carriers restructuring?

- Regaining control of their home domestic market by introducing LCC operations, e.g. Qantas with Jetstar
- Restructuring the cost base of the legacy carrier domestic operation into “Legacy Lite”, e.g. Air Lingus and Air New Zealand
- Restructuring the international cost base (non-fuel) to 20-30% lower than current costs, e.g. SQ, CX, BA
- Protecting secondary ports as well as primary hubs, e.g. QF, LH, NZ
- Merging operations to strip out costs, e.g. MH and Air Asia
- Merging airlines to achieve benefits of scale, e.g. AF/KLM and Air Sahara/Jet Airways

Where will the cost compression come from for legacy carriers?

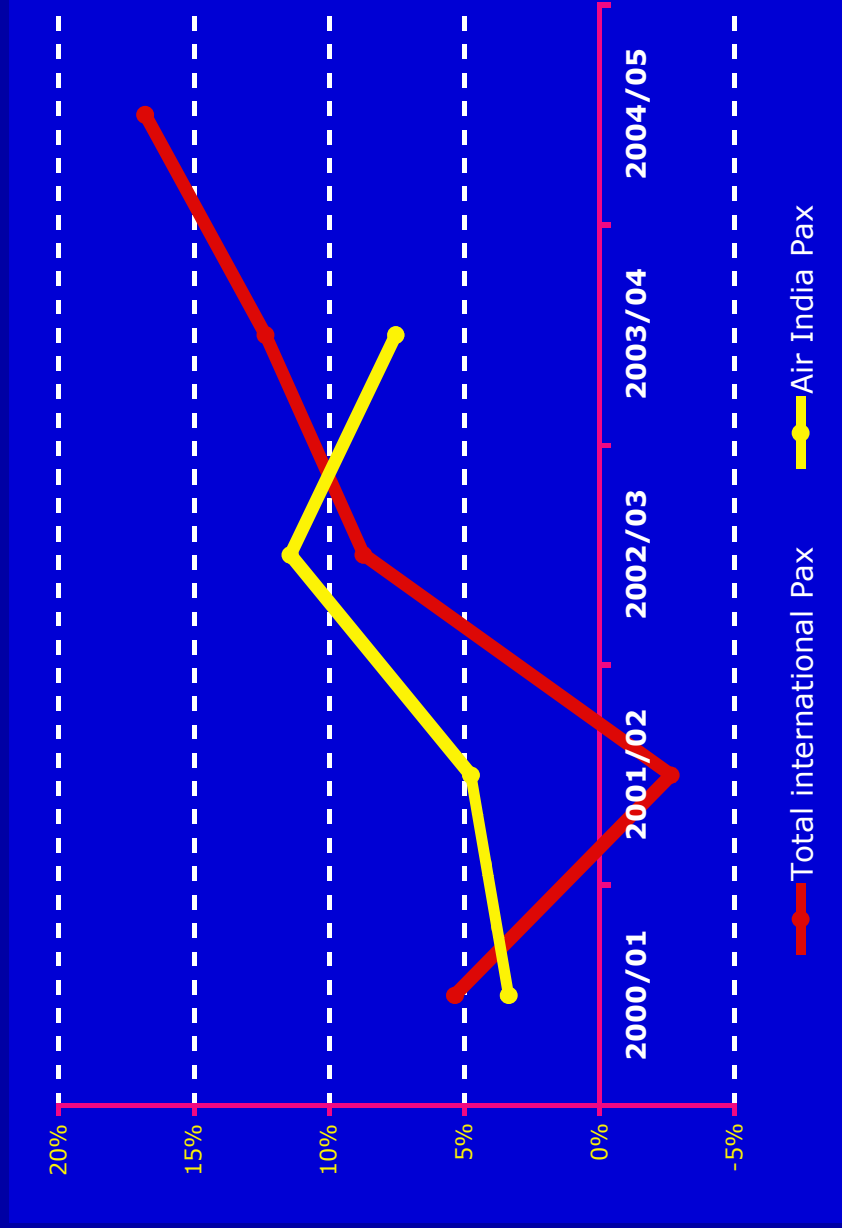


What does this mean for Air India and Indian Airlines and the Indian Government as a shareholder?

- **The Indian market has tremendous growth opportunities**
- **The government policies support long-term growth**
- **The Indian legacy carriers are not well placed to “create value” from this deregulation**
- **Duplication of government capital in the domestic and international market as some/most customers are the same**
- **The Government investor needs to rationalise its application of capital in the domestic and international markets not only to stop losses but grow the market**

Air India Losing Ground in International Growth

International passenger growth, Air India vs Total India



What does the Indian Government do?

- Merge the domestic and international operations at a lower cost base (2+2=3) with higher revenue potential (2+2=5)
- Many historical precedents: BOAC/BEA = BA, Qantas/Australian Airlines = Qantas, NAC/Air New Zealand
- All mergers took too long and didn't give quick wins
- The Indian Government will benefit from hindsight from these global mergers
- The balance sheet stress on the national carrier will be alleviated
- A coordinated aircraft, network and brand positioning will be achieved which will be good for tourism

The work of CAPA Consulting

- **Products**
 - Legacy Carrier Restructuring
 - LCC Start-ups
 - Airline Mergers, Acquisitions and Joint Ventures
- **Geographies**
 - Africa
 - India
 - Japan
 - Malaysia
 - Australia
 - Indonesia
 - New Zealand
 - Singapore
- **Skills**
 - CEO/MD/COO
 - All consultants have hands-on aviation experience
 - CAPA data base provides unrivaled market intelligence

The End