MARKET ENTRY

CONTENT

MEET OUR TEAM

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TEAM SMART BOIS

OVERVIEW

The following presentation gives an idea of how an expansion into the Indian airline market will be benificial for ELCC to combat the problem of stagnant revenue.The following will be covered

- Analysis of Indian airline market
- Analysis of the financials to set up such an operation
- Market entry strategy

WHY INDIAN MARKET

INCREASING DEMAND

- Rising working group and widening middle-class demography is expected to boost demand
- Country will become the third-largest aviation market in terms of passengers by 2024.

MRO OPPORTUNITIES

- The Indian MRO industry is projected to grow from USD 1.7 billion in 2021 to USD 4.0 billion by 2031.
- Modern MRO facilities help airlines verify baseline emissions, manage energy procurement.

POLICY BACKING

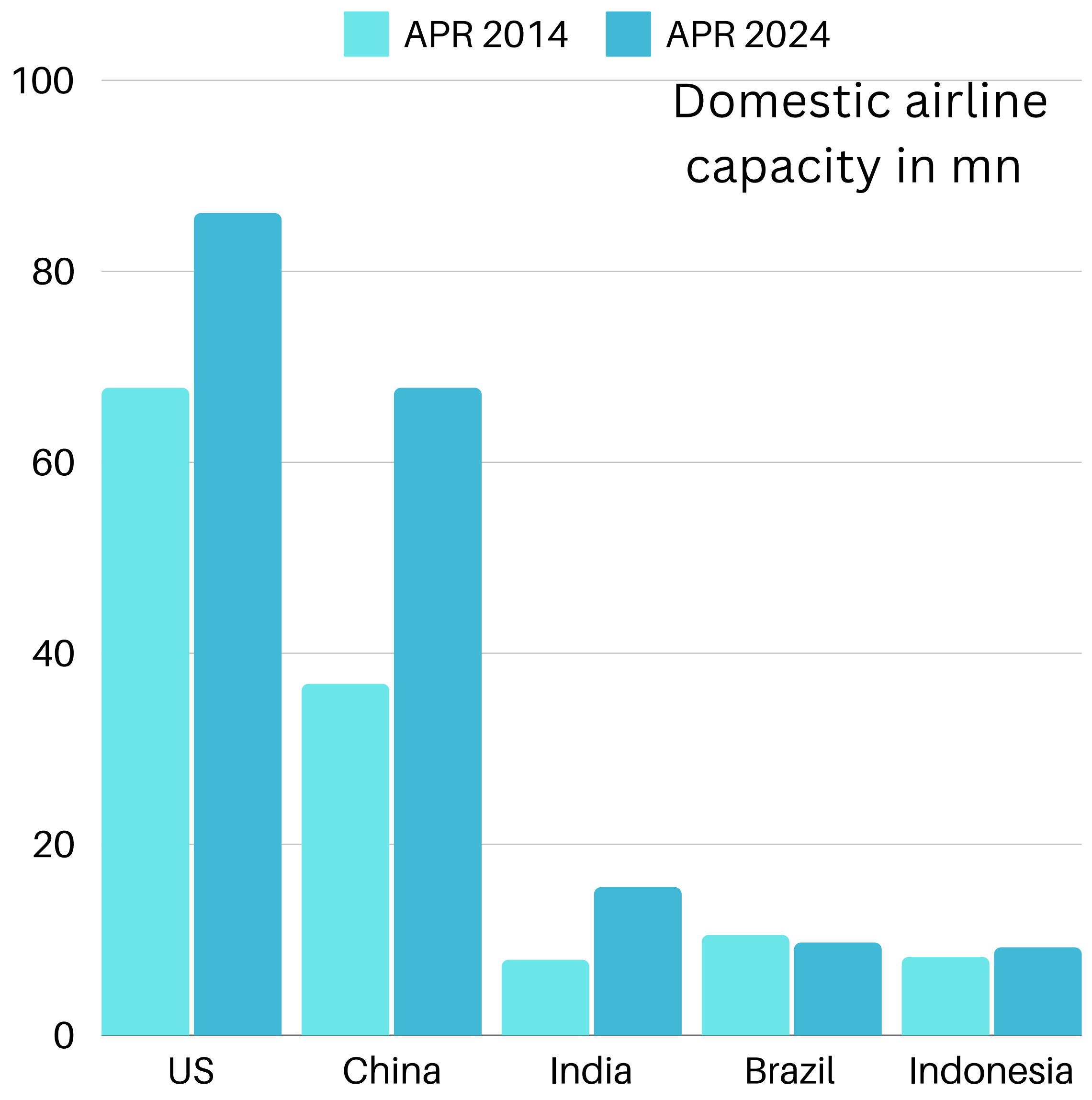
- The UDAN scheme aims to connect unserved and underserved airports, especially in remote and regional areas, to make air travel more accessible.
- The Indian government has liberalized aviation policies, including allowing 100% FDI, attracting foreign investment and fostering industry growth.

INCREASING INVESTMENTS

- The Indian Government is planning to invest US$ 1.83 billion for the development of airport infrastructure along with aviation navigation services by 2026.
- In 2022, India's airport sector received major investments, including US$ 750 million by MIAL, US$ 250 million by Adani, and Rs. 91,000 crore (US$ 12.08 billion) by AAI and others, plus a UK group's investment in Turbo Aviation's TruStar

[1] [2] [3]

MARKET IN NUMBERS



India has become the world's third-largest domestic airline market, rising from fifth place a decade ago, with domestic airline capacity doubling from 7.9 million in April 2014 to 15.5 million in April 2024.

68,000

In FY 23 Indian domestic airline market generated 68,601 CR INR in revenue

20%

The market is projected to grow with a CAGR of 20%

[1] [2] [3]

STRENGTHS

- **Resilient Demand:** Strong recovery in air travel demand, driven by increased domestic tourism and business travel.
- **Low-Cost Carriers:** LCCs dominate the market, making air travel affordable for the middle class.
- **Government Support:** Initiatives like UDAN enhance regional connectivity and support smaller airports.

WEAKNESSES

- **Infrastructure Limitations:** Congestion and capacity issues cause delays and inefficiencies, while regional airports lack infrastructure for increased traffic.
- **Profitability Issues:** Airlines struggle with high operating costs, competitive pricing, and legacy financial problems.
- **Complex Regulatory Environment:** Bureaucratic regulations lead to delays in policy approvals and implementations.

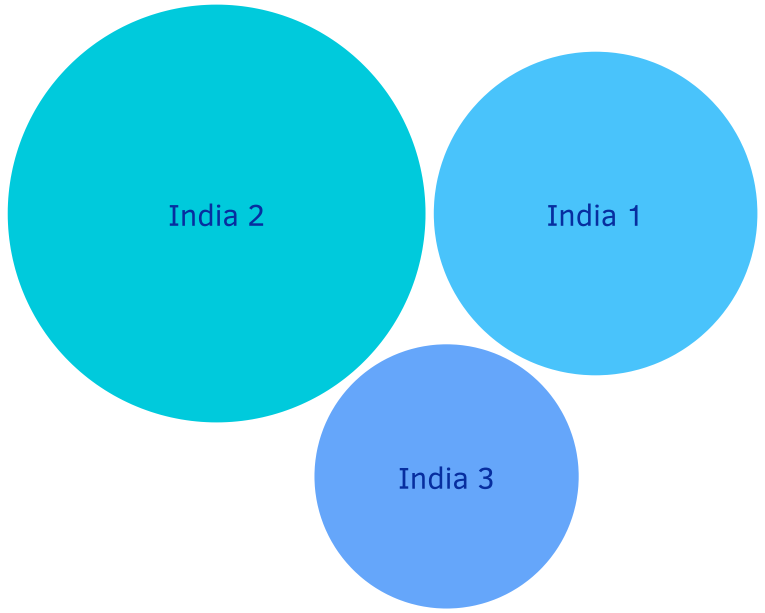
OPPORTUNITIES

- **Liberalized FDI Norms:** Government policies allowing up to 100% investment in greenfield airports and up to 49% in domestic airlines attract foreign capital and expertise.
- **Digital Transformation**: AI, blockchain, and IoT enhance efficiency, customer experience, and safety.
- **Growing Middle Class and Ancillary Revenue:** Rising incomes boost air travel demand, allowing airlines to profit from added services like in-flight entertainment, Wi-Fi, and premium seating.

THREATS

- **Fuel Price Volatility**: Fluctuating global oil prices can significantly impact airline operating costs, with fuel being a major expense.
- **Currency Fluctuations**: Depreciation of the Indian rupee against major currencies can increase costs for imported aircraft, fuel, and spare parts.
- **Market Saturation**: The entry of new players and aggressive competition among existing airlines can lead to price wars, reducing profitability.

CUSTOMER SEGMENTATION



segmentation of domestic air flyers

India 1

- This segment comprises the wealthiest individuals in India
- Indulges in luxury services
- Approx 30% of Domestic air travellers

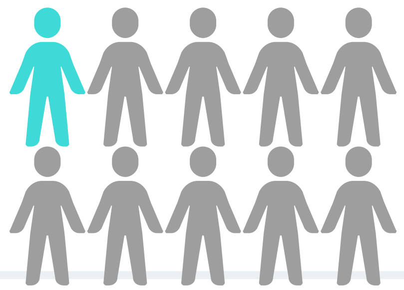
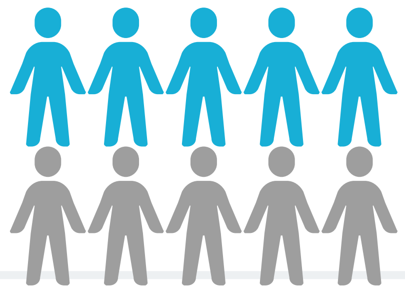
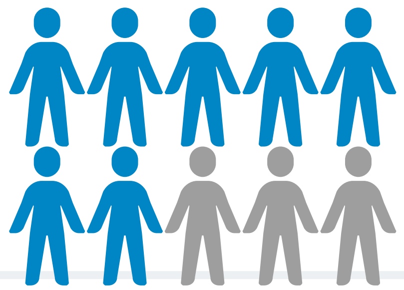
India 2

- This group represents the middle class in India
- They form a substantial market for consumer durables
- Approx 50% of domestic air travellers,.

India 3

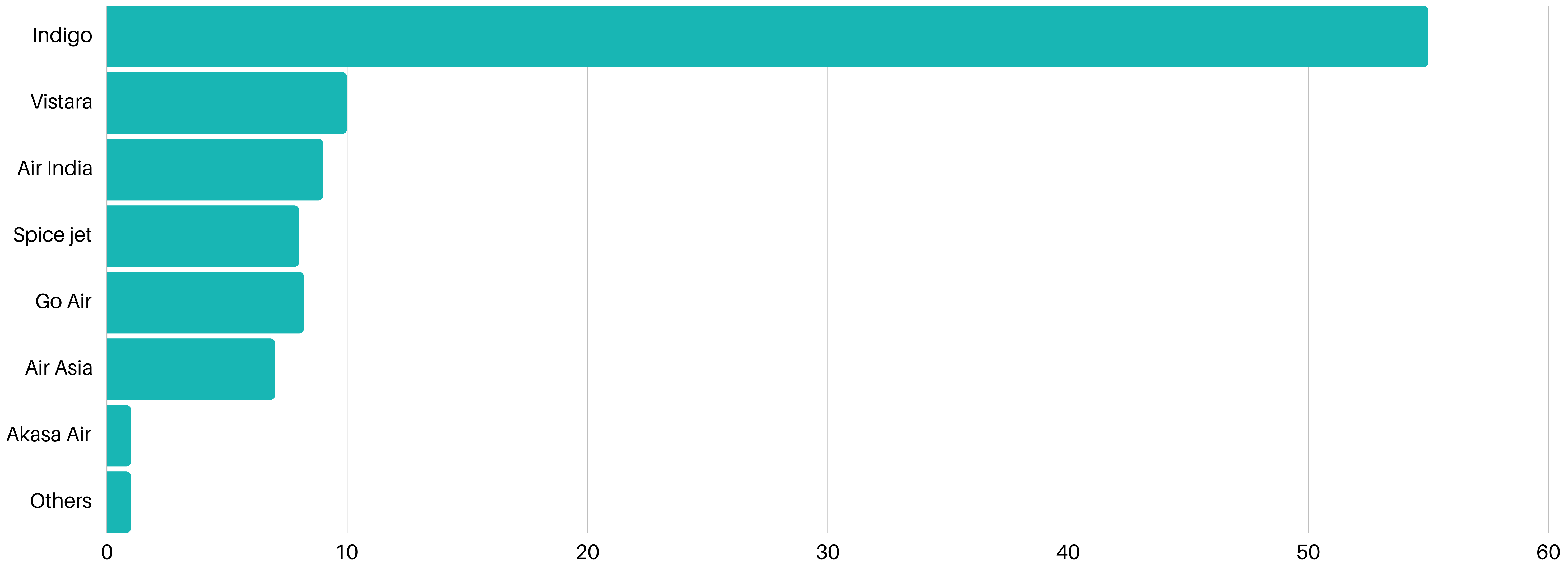
- This segment encompasses lower-income groups.
- Represents a large and growing market for companies offering products at lower price points
- Approx 20% of air travellers

CUSTOMER SEGMENTATION

METRIC	INDIA-1	INDIA-2	INDIA 3
Estimated NO: fliers	**4.8 million**	**8 million**	**3.2 million**
penetration level			
estimated no fliers	0.48 million	4 million	2.24 million

An estimated **market size of 6.72 million**

COMPETITOR ANALYSIS



Domestic market share of airlines across India FY 2023, by passengers carried

- It is evident that indigo is the major player of the market with over 50% market share
- Vistara and Air India are not LCCs
- Our major competetiors will be Indiog,spice jet,Go Air,Air Asia

[1]

COMPETETIOR ANALYSIS

1. Largest player of the market
2. Strong promoter backing
3. Impressive brand value
4. Focuses on a no-frills service model, maintaining low operating costs, and high operational efficiency

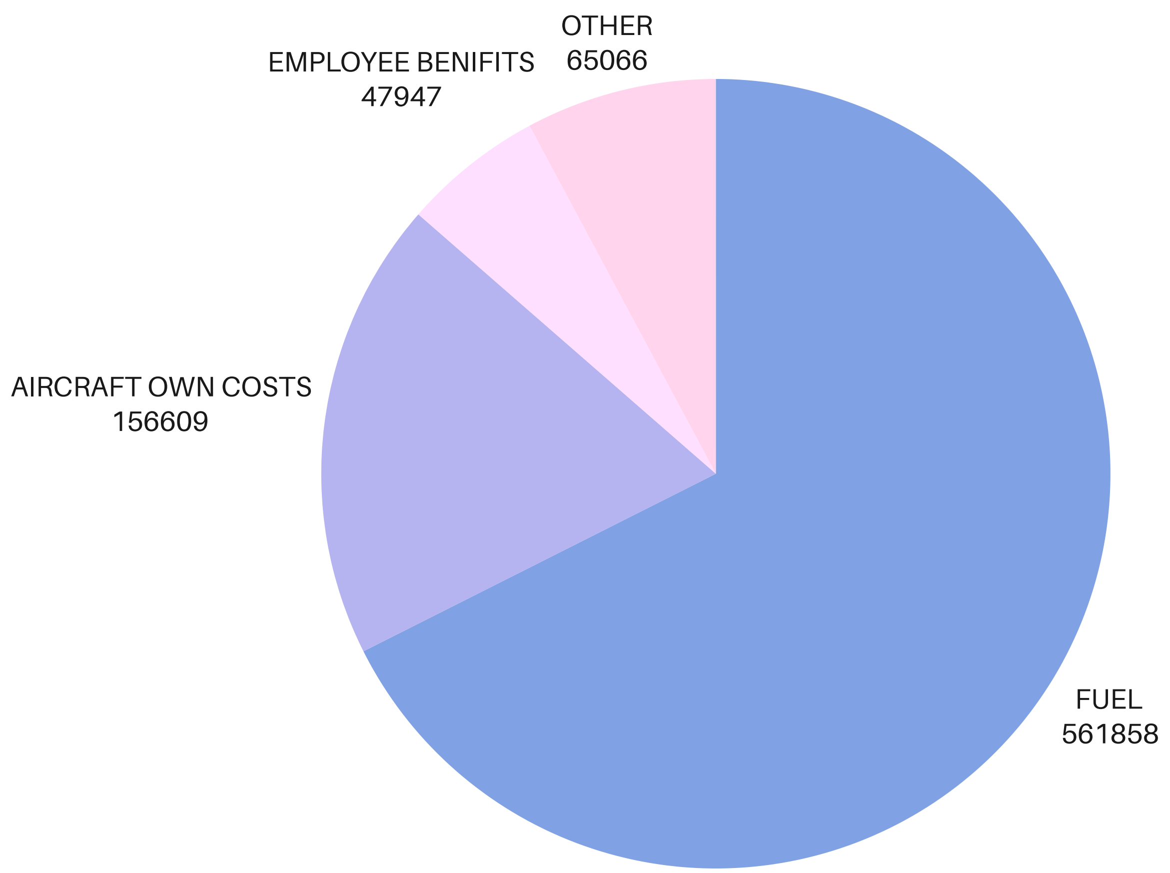
1. Operating a single type of aircraft simplifies maintenance and training.
2. The recent rebranding to Go First aims to revitalize its market position
3. Fewer routes and destinations, along with less brand recognition compared to more established competitors

1. AirAsia India is a joint venture between Tata Sons and AirAsia Berhad
2. Strong brand association with AirAsia's global network
3. Known for customer-centric innovations and frequent promotions

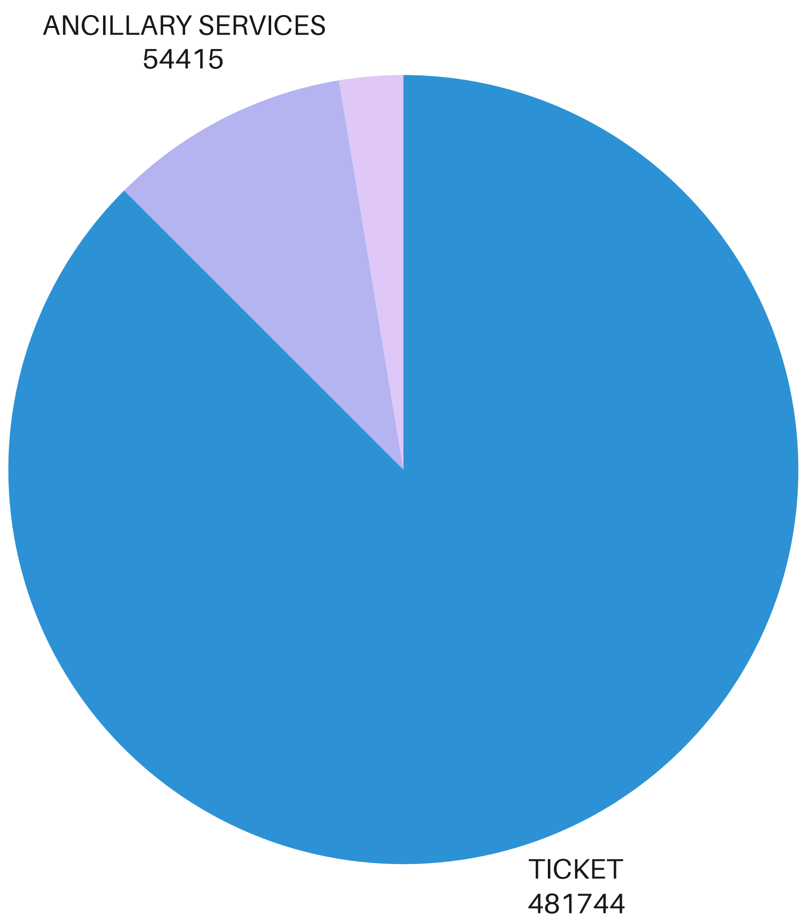
1. known for its competitive pricing and frequent promotional offers
2. SpiceJet has got an interactive website allowing bookings, hotels etc
3. aggressive marketing strategies, frequent sales, and efforts to innovate in customer service
4. Has limited destinations

[1] [2] [3] [4]

FINANCIAL METRICS



TOTAL EXPENDITURE BREAKDOWN(IN MILLIONS INR)



TOTAL REVENUE BREAKDOWN(IN MILLIONS INR)

- The most expenditure of any airline comes from fuel,fuel expenses rose from RS 328102 million in FY22 to RS 561,858 million in FY 23
- CASK increased by 5% from RS 4.60 in FY22 to RS 4.80 in FY 23

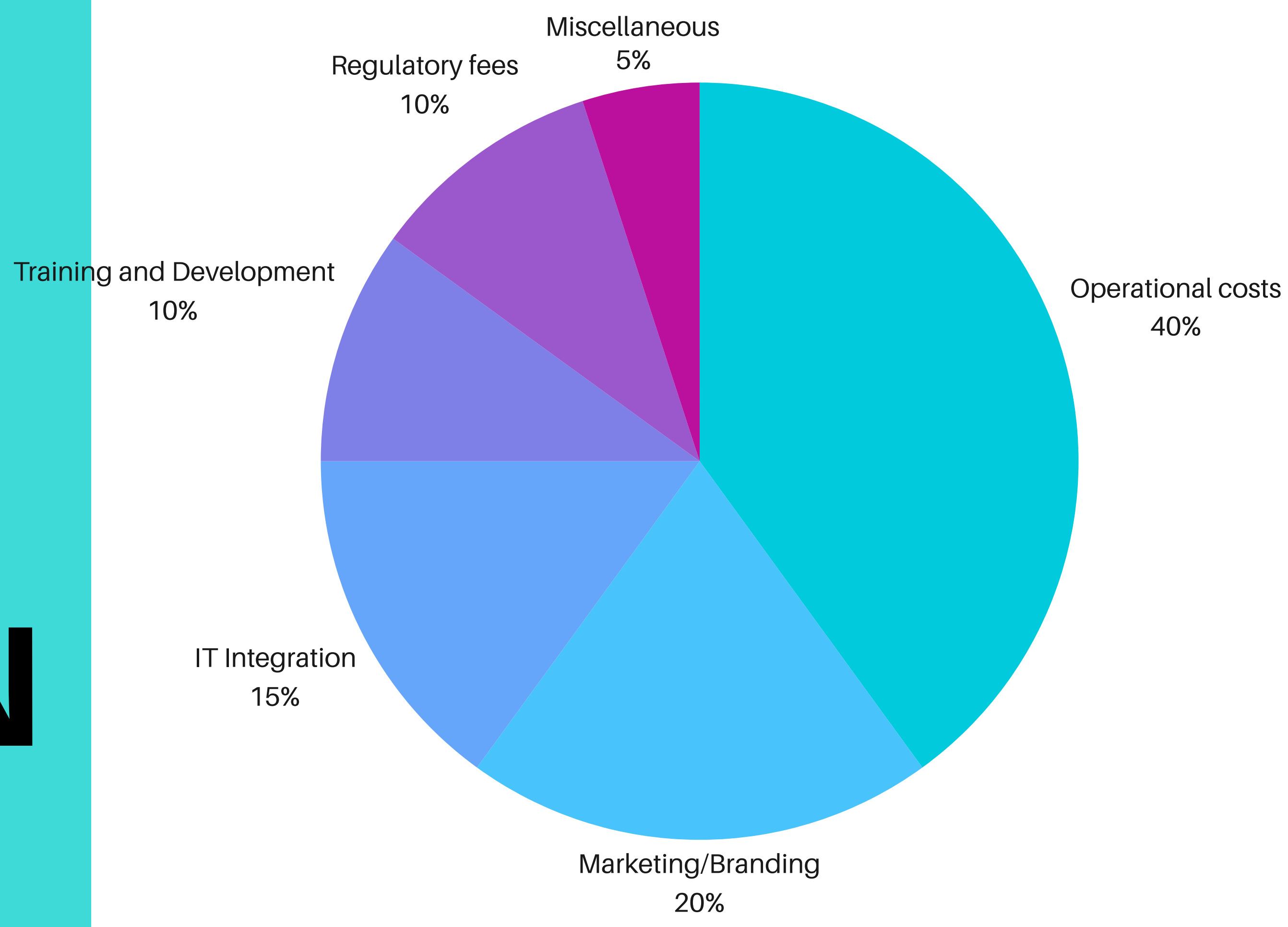
- Major contributor to revenue is ticket charges which rose from RS   219715 million to RS 481 743 million
- RASK increased by 22% from RS 3.73 in FY22 to RS 4.80 in FY23

Following data gives us an idea of the financials,and are froma a major player in the industry

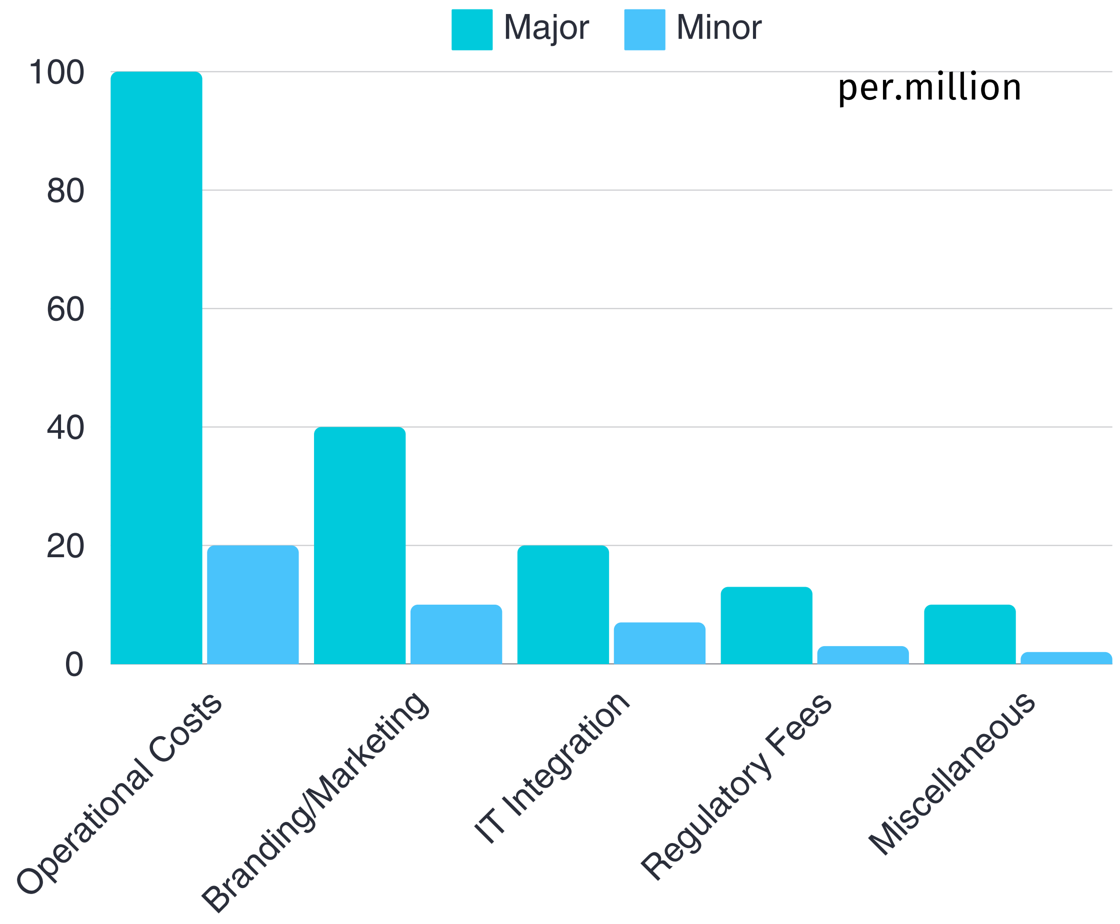
[1]

COST BREAKDOWN

The approximate costs when two airlines will enter a joint venture



TOTAL COST BREAKDOWN WHEN 2 AIRLINES ENTER IN A JOINT VENTURE



BREAKDOWN OF THE COST BETWEEN THE MAJOR AND MINOR CLIENT

TOTAL COSTS COME OUT TO APPROXIMATELY 225 MILLION USD - 183 MILLION USD FOR THE MAJOR PARTNER AND 42 MILLION USD FOR THE MINOR PARTNER.

CLIENT CAPABILITIES

Established Brand

- Reputation: Known in Europe for reliability, affordability, and excellent customer service.
- Brand Recognition: Attracts customers with a reputation for cost-effective and efficient travel.

Digital Infrastructure

- Booking Systems: User-friendly online platforms for seamless transactions.
- Customer Service: 24/7 support through AI-powered tools.
- Operational Management: Uses IoT and AI for fleet monitoring, predictive maintenance, and analytics.

Cost Management

- Cost-Control Measures: Controls costs via bulk purchasing, strategic alliances, and efficient routing.
- Lean Operations: Applies lean principles to reduce waste and costs.

Fleet Management

- Modern Fleet: Operates a fuel-efficient fleet to cut fuel and maintenance costs.
- Fleet Optimization: Ensures efficient aircraft use, minimizing downtime and costs.

Customer Experience

- Value-Added Services: Offers in-flight entertainment, extra legroom, and premium seating.
- Customer Satisfaction: Prioritizes feedback and continuous improvement to enhance the travel experience.

Operational Efficiency

- Resource Utilization: Optimizes crew scheduling, turnaround times, and maintenance.
- Streamlined Processes: Minimizes costs and enhances on-time performance through efficient operations.

UNIQUE SELLING POINTS

Efficient Operations

- Reliability: High efficiency ensuring punctual and reliable flights.
- Service Quality: Consistent high-quality service, building trust and loyalty.

Low-Cost Leadership

- Affordable Pricing: Competitive models making air travel accessible to more people.
- Cost-Effectiveness: Low operational costs to pass savings to customers without compromising quality.

Digital Innovation

- Seamless Experience: Advanced platforms enhancing the journey from booking to boarding.
- Personalization: Data analytics for personalized services and recommendations.

Environmental Commitment

- Sustainable Practices: Investment in sustainable fuels and energy-efficient tech to reduce carbon footprint.
- Eco-Friendly Image: Positioned as an environmentally conscious airline.

Flexible Offerings

- Customizable Options: Various travel options catering to different needs.
- Add-On Services: Additional revenue through services like Wi-Fi, extra baggage, and premium seating.

European Expertise

- Quality Standards: Leveraging European standards for high-quality service and safety.
- Premium Perception: Positioned as a premium yet affordable airline in India, differentiating from local low-cost carriers.

INSIGHTS

After analysis,the following conclusions were made

01 The market is seeing good growth with annual CAGR of 20% and generating revenues in the range of 68,00 cr INR

02 From customer segmentation,our service will mostly be penetrated into India-2 and India-3,with a gainable customer base of 6.72 million

03 Of the competetiors Indigo has the major market share of over 50%.This suggest a standalone entry would be difficult.

04 Due to the companys brand image and cost effective functioning strategies, a sensible market entry is likely to earn profits in the future

MARKET ENTRY STRATEGIES

STANDALONE

Cost : Highest cost due to aircraft acquisition, airport slots, staff recruitment and training, establishing infrastructure, and marketing.
Control : Full control over brand, operations, and decision-making.
Time to Market : Slowest. Requires navigating regulations, obtaining licenses, building infrastructure, and establishing a brand.

MERGE & ACQUISITION (M&A)

Cost : High cost of acquiring an existing airline. Integration costs for merging operations and branding can be significant.
Control : Immediate control over the acquired airline's network, staff, and infrastructure.
Time to Market : Fastest. Leverages the existing airline's infrastructure and market presence.

JOINT VENTURE

Cost : Lower cost compared to a greenfield approach. Shared resources with the local partner reduce initial investment.
Control : Shared control with the local partner. Requires negotiation and compromise on decision-making.
Time to Market : Faster than a greenfield approach. Leverages the local partner's existing infrastructure, knowledge, and regulatory experience.

Evaluation Criteria:

Criteria	Standalone	Joint	M&A
Cost	High	Moderate	High
Control	High	Shared	High
Time To Market	Slow	Moderate	Fast
Risk	High(Unfamiliarity with market)	Moderate	Moderate(Depend on target airlines)
Regulatory Hurdles	High	Moderate	Moderate(Depend on target airlines)

CONCLUSION STATEMENT

Hence, for the European Low-Cost Airline (ELCA), a **Joint Venture** offers the best balance between cost, control, and speed to market. This allows the ELCA to:

- **Reduce initial investment** : Partnering with an established Indian LCA lowers the financial burden of setting up operations from scratch.
- **Gain market access faster** : Utilise the local partner's existing infrastructure, regulatory knowledge, and established network.
- **Benefit from local expertise** : The Indian partner can provide valuable insights into the market, consumer preferences, and navigating regulations.
- **Mitigate risks** : Shared knowledge and resources help minimize operational and cultural challenges.

However, the ELCA should also consider:

- **Finding a suitable partner** : The partner should have a strong financial position, operational efficiency, and a brand reputation that aligns with the ELCA's values.
- **Negotiating control and profit-sharing** : A clear agreement regarding decision-making power, profit sharing, and brand positioning is crucial to ensure a successful partnership.

MARKET ENTRY

PHASE 1

- : Market Research
- Strategy Development
- Identifying Partners
- Finalizing Strategy

PHASE 2

- Negotiating Joint Venture Agreement
- Regulatory Approvals
- Establishing Legal Entity

PHASE 3

- Fleet Acquisition and Infrastructure Development
- Recruitment, Training, and Marketing
- Network Development and Partnerships

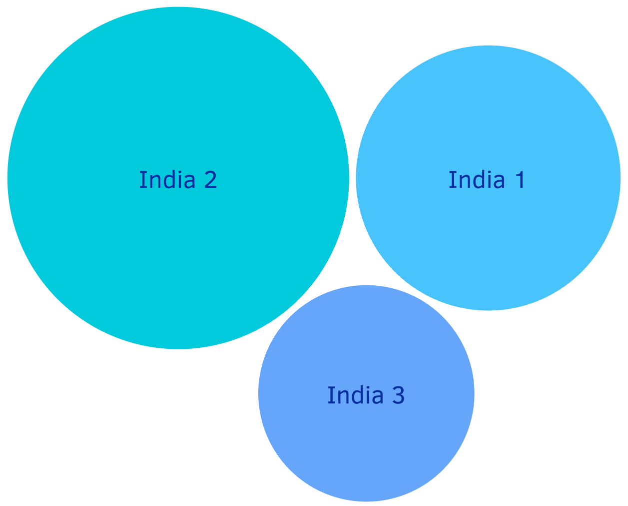
PHASE 4

- Launch and Initial Operations
- Expansion and Improvement

MARKET INSIGHTS

Target market

- The market which is being targeted is India-2 and India-3
- Customers in India-2 will be drawn due to the european image and the competitive pricing
- customers in India-3 will be drawn be the competitive pricing



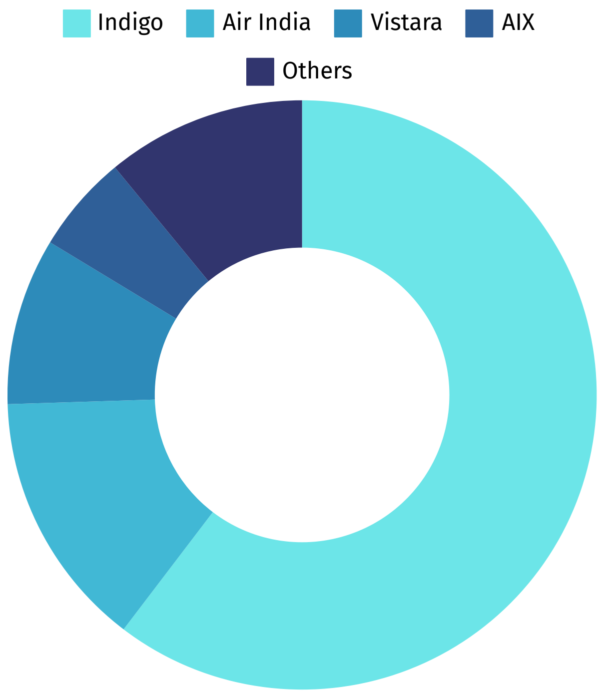
segmentation of domestic air flyers(in %)

customer preferences

- A significant portion of Indian fliers are price sensitive and prefer LCC over FSC
- Customers prefer direct flights over connections, tier-2 and tier-3 cities are lacking the same
- Factors like punctuality, reliability and service quality are also important
- User friendly digital services like ticket booking and online check-in are becoming more important

major players

- Indigo is the major player with a market share of 60.6%
- Indigos major network and connectivity is one of the key reasons for the same



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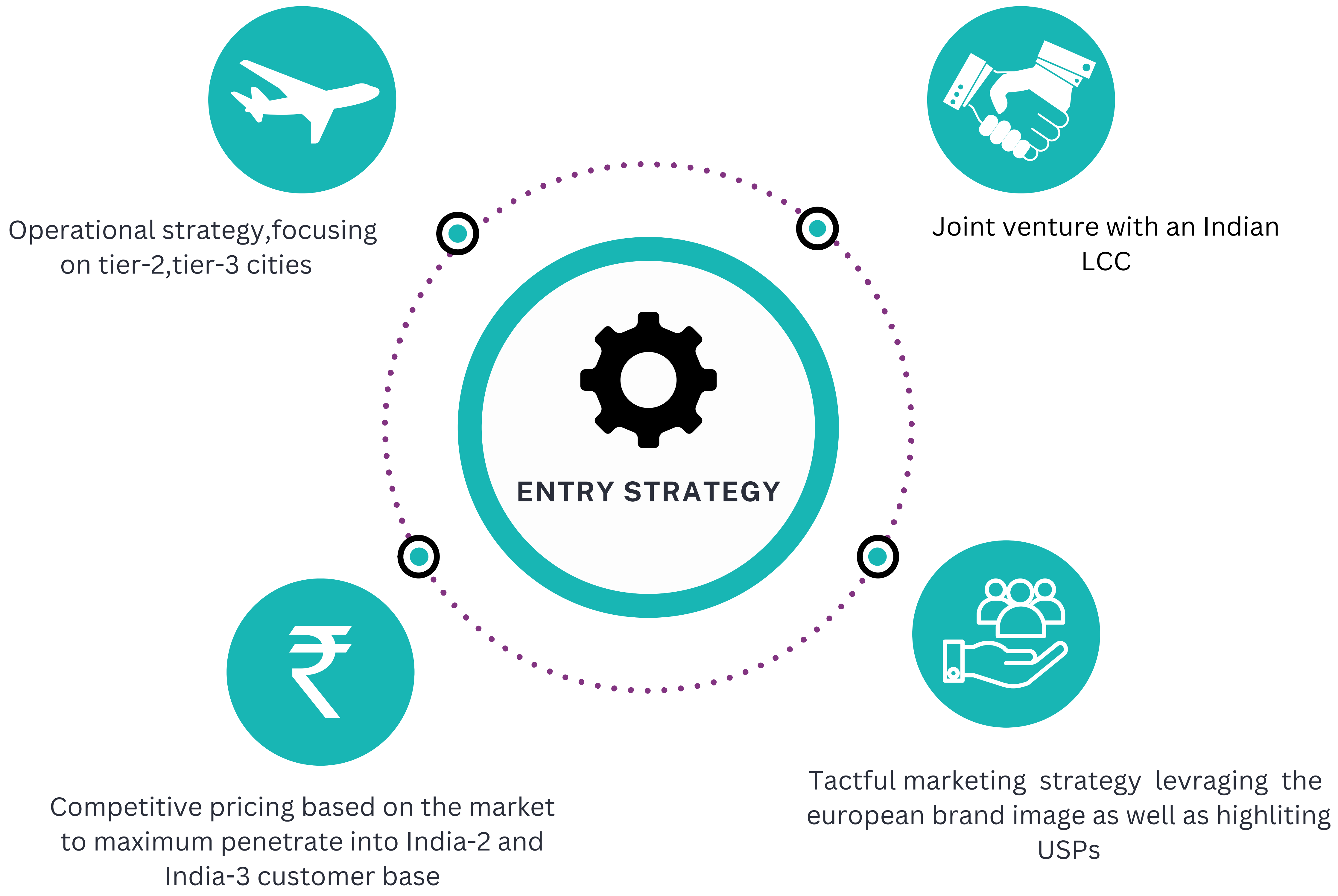
MARKET ENTRY STRATEGY



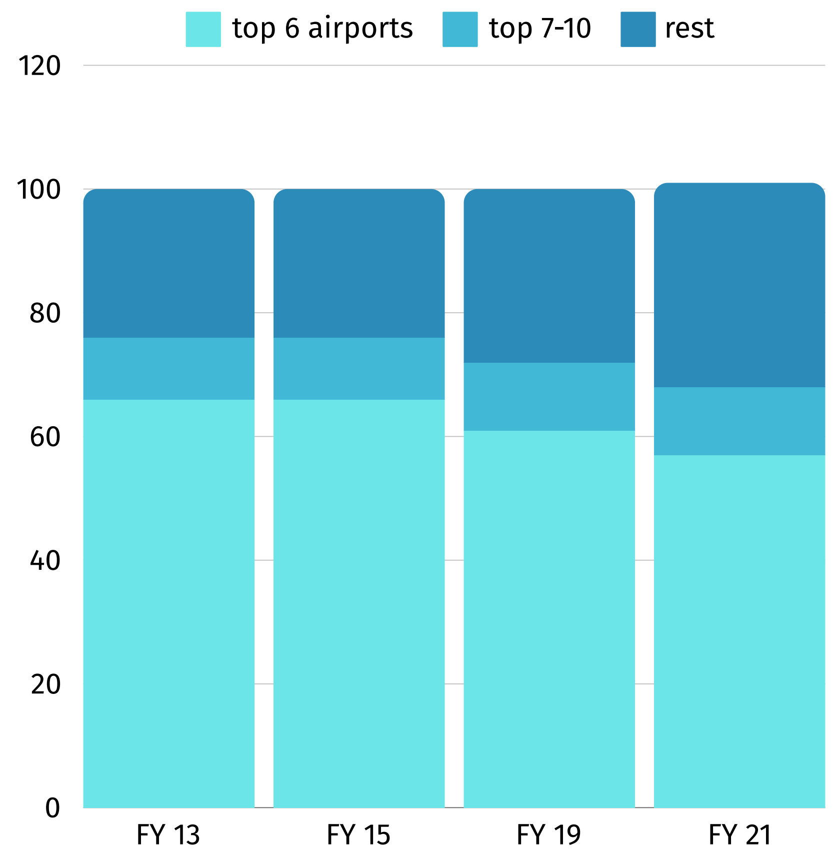
Operational Strategy

IN OPERATIONAL STRATEGY WE WILL BE LOOKING AT THE FOLLOWING

- WHY A FOCUS ON TIER 2 AND TIER 3 CITIES
- ROUTE NETWORKS
- FLEET MANAGEMENT
- CUSTOMER EXPERIENCE

Focus on tier-2,tier-3 cities

- In tier-1 cities competetion from veteran players in the market will make it difficult for new entrants
- Rather than focus on tier-1 cities the company should focus on tier-2, tier-3 cities as its goal is growth in the longterm



- Air Traffic Shift: India's air traffic has moved from major metro areas to smaller airports, with top metro areas' share declining from 69% (FY 13) to 63% (FY 21).
- Rise of Small Airports: The number of airports handling 1-5 million passengers/year increased from 17 to 29 (FY 13-20), with 5-10 million passenger airports growing from one to six.
- Government Initiatives: India's Ministry of Civil Aviation is expanding UDAN to 1,000 routes and 100 airports, aiming to operationalize 100 new airports in five years, supporting regional carriers and cargo operations.

[1]

ROUTE NETWORKS

- Initial Routes: Focus on major Tier 2 cities (Jaipur, Lucknow, Thiruvananthapuram, Kochi, Goa, Nagpur, Coimbatore, Indore) and key Tier 3 cities (Mangaluru, Tiruchirappalli, Madurai, Raipur, Ranchi, Siliguri).
- Expansion: Gradually expand to include more Tier 3 cities based on demand

FLEET MANAGEMENT

- Initially lease aircraft to reduce upfront costs, with potential purchase as the market stabilizes

CUSTOMER EXPERIENCE

- Seamless Booking: User-friendly website and mobile app.
- In-Flight Comfort: Comfortable seating, clean cabins, essential in-flight services.
- Customer Support: Efficient and responsive customer service.

Marketing strategies

ACTIVE SOCIAL MEDIA

- Active social media presence helps gain traction among the youth
- Using influencers for promotions can be cost-effective even tho it provides similar reach

LOYALTY PROGRAMS

- Loyalty programs where customers can redeem their miles for rewards help customer retention
- It also helps drastically improve revenue by making the customer spend motre

CSR

- By doing corporate social responsibilty actvites overall brand image will be. enhanced
- Conducting lesiure programs and competetions will help the company penetrate into a untapped customer segment(prime example is indigo conducting photography contests)

PRICING STRATEGY

A COMPETITIVE PRICING STRATEGY IS ESSENTIAL FOR A SMOOTH ENTRY INTO THE MARKET.

TICKET PRICING

FIRST SIX MOTHS

Base Fares:

- Short-Haul Flights (up to 500 km): around RS 1000-3500
- Medium-Haul Flights (500 km - 1,000 km): RS 3000-RS 6000
- Long-Haul Flights (over 1,000 km): strarting from RS 5000

AFTER SIX MONTHS

Adjusted Base Fares:

- Short-Haul Flights: RS1200-RS4000
- Medium-Haul Flights:RS 4000-RS 6500
- Long-Haul Flights: starting from RS 5200

DYNAMIC PRICING

- GIVING OFFERS DURING OFF PEAK SEASONS AND HIKING PRICE 10%-15% DURING PEAK PERIODS

[1]

AI LEVERAGE

- Using AI to monitor competitor pricing and market factors enables airlines to dynamically adjust ticket prices, enhancing competitiveness and revenue management.

Value-Added Segmented Pricing

- Implement a tiered fare structure (basic, standard, premium) with varying services. Offer seasonal and festival discounts. Generate ancillary revenue by charging for extras like seat selection and in-flight meals, and offer discounted bundled packages (e.g., ticket + baggage + meal).

FACTORS

THE IDEAL JOINT VENTURE PARTNER

01 FINANCIAL PERFORMANCE

02 BRAND REPUTATION

03 OPERATIONAL EFFICIENCY

04 CULTURAL ALIGNMENT

POSSIBLE SYNERGIES

NETWORK AND ROUTE EXPANSION

- ELCA'S CONTRIBUTION : The ELCA can bring its network expertise and potential code-sharing agreements with other European airlines. This can help establish new connections between India and Europe, attracting new customer segments
- LCC'S CONTRIBUTION : The Indian LCC's existing domestic network provides immediate access to a large customer base and a strong foothold in the Indian market. The ELCA can leverage this network to expand its reach within India and potentially connect to regional destinations.

OPERATIONAL EFFICIENCY

- ELCA'S CONTRIBUTION :The ELCA can share its best practices in fleet management, maintenance procedures, and fuel efficiency. This can lead to cost savings for the joint venture.
- LCC'S CONTRIBUTION : The Indian LCC's experience operating in the Indian aviation market allows for cost-effective sourcing of supplies, labor, and ground handling services. This expertise can benefit the ELCA and contribute to overall operational efficiency

BRAND BUILDING AND MARKETING

- ELCA'S CONTRIBUTION :The ELCA's European brand reputation for quality and safety can enhance the joint venture's image in the Indian market. The ELCA can also leverage its marketing expertise to reach new customer segments in India.
- LCC'S CONTRIBUTION : The Indian LCC's established brand awareness and understanding of local marketing channels can be crucial for effectively reaching Indian consumers. The joint venture can benefit from targeted marketing campaigns that combine the strengths of both brands.

KNOWLEDGE SHARING AND EXPERTISE TRANSFER

- ELCA'S CONTRIBUTION :The ELCA can share its knowledge of European aviation regulations, safety standards, and technological advancements. This can benefit the Indian LCC and contribute to the overall safety and efficiency of the joint venture's operations.
- LCC'S CONTRIBUTION : The Indian LCC's experience navigating the Indian regulatory environment and understanding local customer preferences can be invaluable for the ELCA. This knowledge transfer ensures the joint venture operates compliantly and caters effectively to the Indian market.

PROCUREMENT AND RESOURCE SHARING

- The joint venture can negotiate bulk purchase agreements for aircraft parts, fuel, and other supplies, leveraging the combined buying power of both partners to achieve better pricing.
- Sharing resources like training facilities, maintenance crews, and ground handling staff can optimize resource utilization and reduce overall costs.

FINANCIAL ANALYSIS

Initial Setup Costs (First Year)

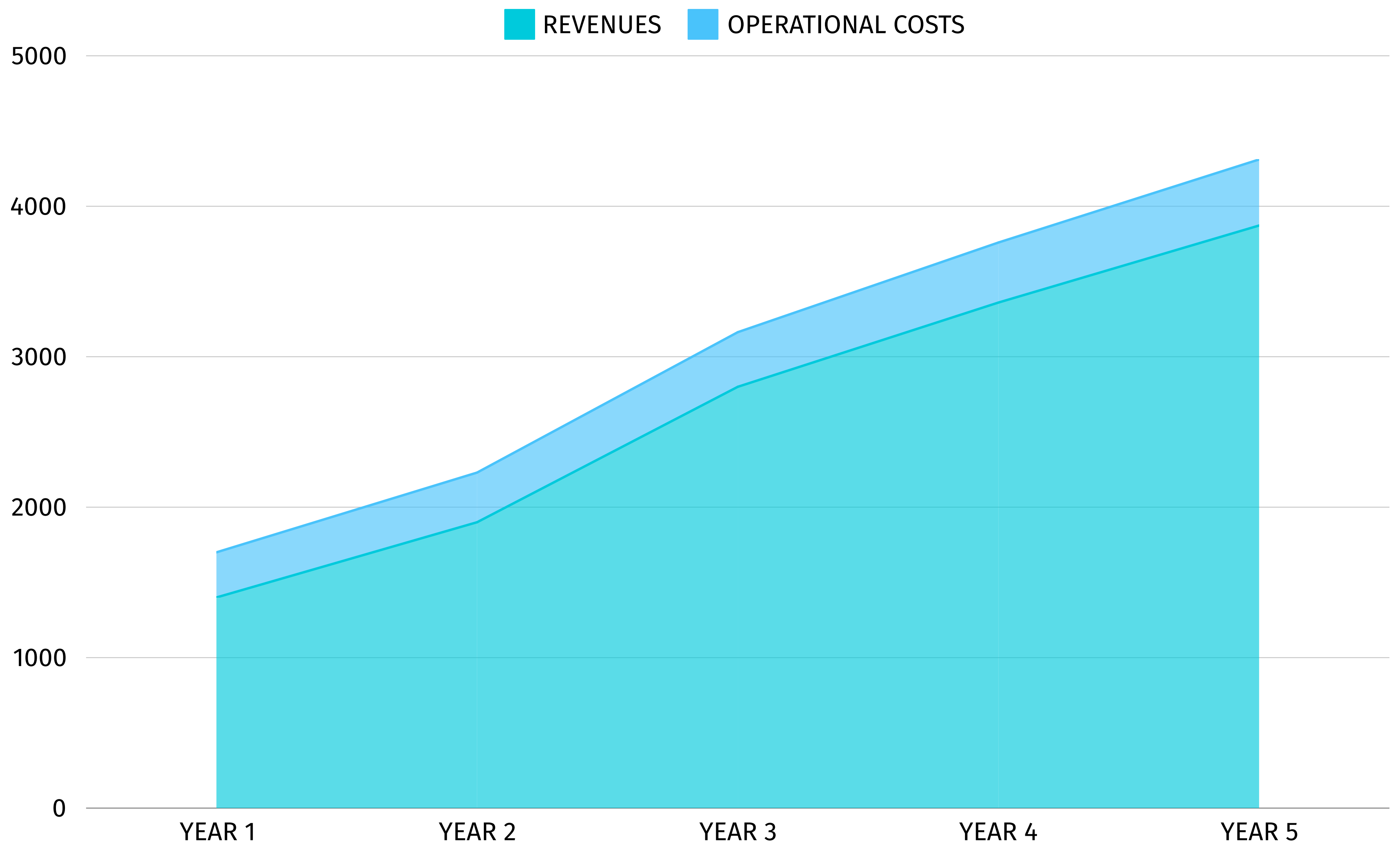
1. Aircraft Acquisition and Leasing:Total: ₹1,300 crore
2. Infrastructure development- ₹220 crore
3. Marketing and Branding: Total: ₹50 crore
4. Recruitment and Training:Total: ₹30 crore
5. Regulatory and Legal:Total: ₹15 crore
6. Operational Costs (First Year): Total: ₹300 crore

Total Initial Setup Cost: ₹1,915 crore

PROJECTIONS

- **Assuming** a CAGR of 20%
- AVG revenue -2666.4 crore INR
- AVG operational cost-366.7 crore INR
- Avg Profit - 2999.7 crore INR
- Assuming 30% of profit is shared to the JV partner,AVG profit-1609.79 crores INR

BREAK EVEN PERIOD IS about **1.2 years**



Strategic Roadmap

Month 1-3

Market Research

- Consumer Preferences and Travel Patterns (Month 1-2):
  - Conduct surveys in tier 2 and tier 3 cities.
  - Analyze travel data for trends.
- Pricing Strategies Analysis (Month 2-3):
  - Compare LCCs and FSCs pricing models.
  - Assess pricing impact on choices.
- Regulatory Environment (Month 3):
  - Review regulations for foreign airlines.
  - Engage with regulatory bodies.

Month 4-6

Strategy Development

- Target Market Segments (Month 4):
  - Segment market and develop personas for tier 2 and tier 3 cities.
- Brand Positioning Strategy (Month 5):
  - Craft positioning for value and quality.
  - Develop region-specific campaigns.
- Business Plan (Month 6):
  - Create plan with financials, fleet, and route strategy.

Month 7-9

Identifying Partners

- Research Potential Partners (Month 7):
  - Identify and shortlist Indian LCCs for joint venture.
- Evaluate Partners (Month 8):
  - Conduct financial and operational analysis.
- Brand Reputation (Month 9):
  - Assess partners' reputation in target cities.

Month 10-12

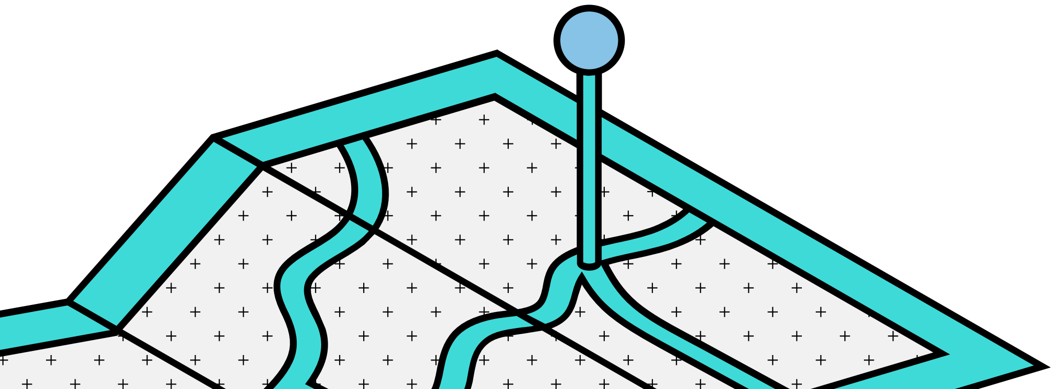
Finalizing Strategy

- Joint Venture Negotiations (Month 10):
  - Negotiate terms and finalize agreements.
- Regulatory Approvals (Month 11):
  - Submit documentation and follow up.
- Launch Preparation (Month 12):
  - Develop launch plan and train staff.

Month 13-14

Negotiating Joint Venture Agreement

- Finalize Terms (Month 13-14):
  - Ownership Structure and Profit-Sharing: Define the ownership split and profit-sharing arrangements with the Indian partner.
  - Management Structure and Decision-Making Processes: Establish clear management roles and decision-making procedures.
  - Brand Positioning and Marketing Strategy: Align on brand positioning and develop a joint marketing strategy.



Sources: [1][2][3][4][5]

Strategic Roadmap

Month 14-15

Regulatory Approvals

- Secure Licenses and Permits (Month 14-15):
  - Work with the Indian aviation authority and relevant ministries to obtain necessary operational licenses and permits.
  - Address any regulatory requirements and ensure compliance.

Month 16-19

Establishing Legal Entity

- Set Up Legal Entity (Month 16-19):
  - Establish a legal entity in India as per the joint venture agreement.
  - Complete all necessary legal and administrative steps to formalize the entity.

Month 20-22

Fleet Acquisition and Infrastructure Development

- Fleet Acquisition (Month 20-21):
  - Lease or purchase aircraft based on route network requirements and budget.
- Infrastructure Development (Month 21-22):
  - Establish a ticketing system, online booking platform, and mobile app.

Month 23-25

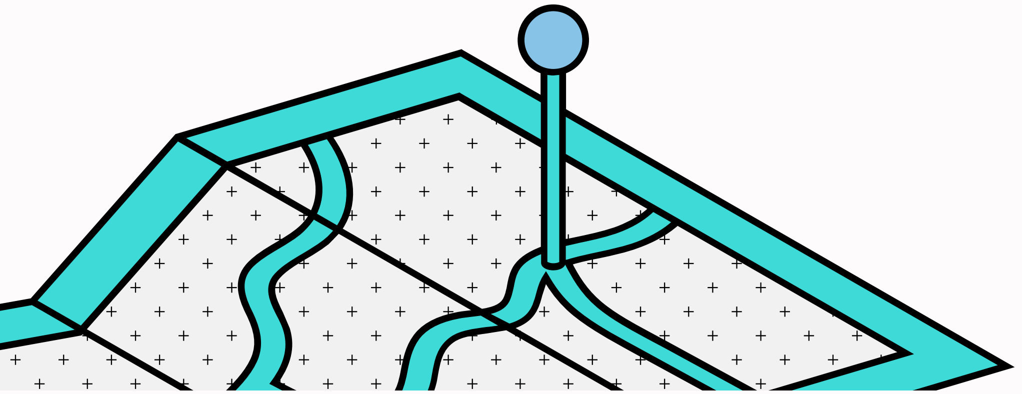
Recruitment, Training, and Marketing

- Recruitment and Training (Month 23-24):
  - Hire and train local staff for various operational functions.
  - Ensure cultural sensitivity in training programs.
- Marketing and Branding (Month 24-25):
  - Launch a targeted pre-launch marketing campaign.
  - Utilize digital marketing channels like social media and search engine marketing.
  - Partner with travel agencies for wider reach.
  - Run targeted promotional campaigns during peak travel seasons.

Month 26-28

Network Development and Partnerships

- Develop Network and Schedule (Month 26-27):
  - Finalize the route network connecting major Indian metros.
  - Focus initially on high-demand routes.
- Establish Partnerships (Month 27-28):
  - Partner with airports to secure desirable slots.
  - Negotiate ground handling services.



Sources: [1][2][3][4][5]

Strategic Roadmap

Month 29-31

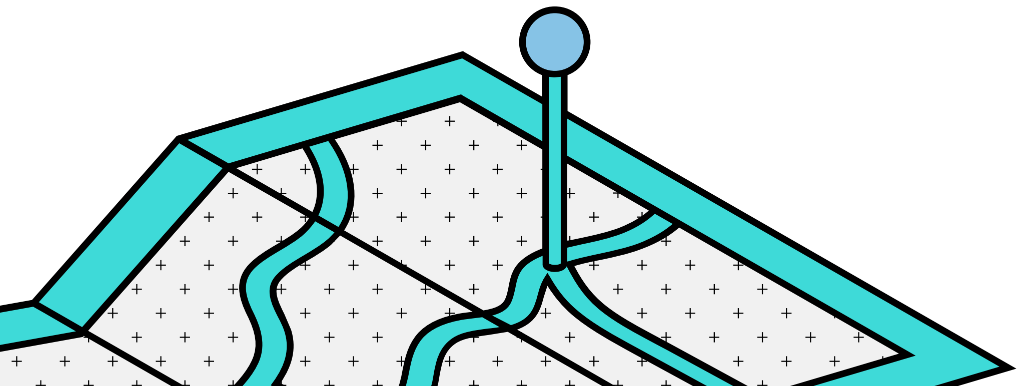
Launch and Initial Operations

1. Official Launch (Month 29):
- Start operations with a strong marketing push and promotional offers.
2. Performance Monitoring (Month 30-31):
- Track KPIs like load factors, customer satisfaction, and profitability.

Month 31-33

Expansion and Improvement

1. Network Expansion (Month 31-32):
- Gradually expand the route network based on demand and profitability.
2. Continuous Improvement (Month 32-33):
- Refine services, pricing strategies, and marketing campaigns based on feedback and trends.



Sources: [1][2][3][4][5]

RISKS AND MITIGATION STRATEGY

RISKS

1. Strategic Disagreement:
- Different goals or visions for the airline can lead to conflicts over routes, fleet, marketing, and pricing strategies.

2. Operational Challenges:
- Merging operations and cultures can be difficult.
- Integration of staff, maintenance procedures, and IT systems can be complex and lead to disruptions.

3. Financial Issues:
- Unexpected costs, currency fluctuations, or economic downturns can strain the partnership.
- Disagreements on profit sharing or capital contributions can arise.

MITIGATION

1. Thorough Due Diligence:
    - Conduct a comprehensive assessment of the potential partner’s financial health, safety record, operational practices, and cultural fit.
2. Clear and Comprehensive Agreements:
    - Clearly define roles, responsibilities, profit sharing, decision-making processes, dispute resolution mechanisms, and exit strategies in the joint venture agreement.
3. Effective Governance:
    - Establish a strong governance structure with clear lines of authority and communication channels.
    - Ensure a well-defined management team with representatives from both partners.