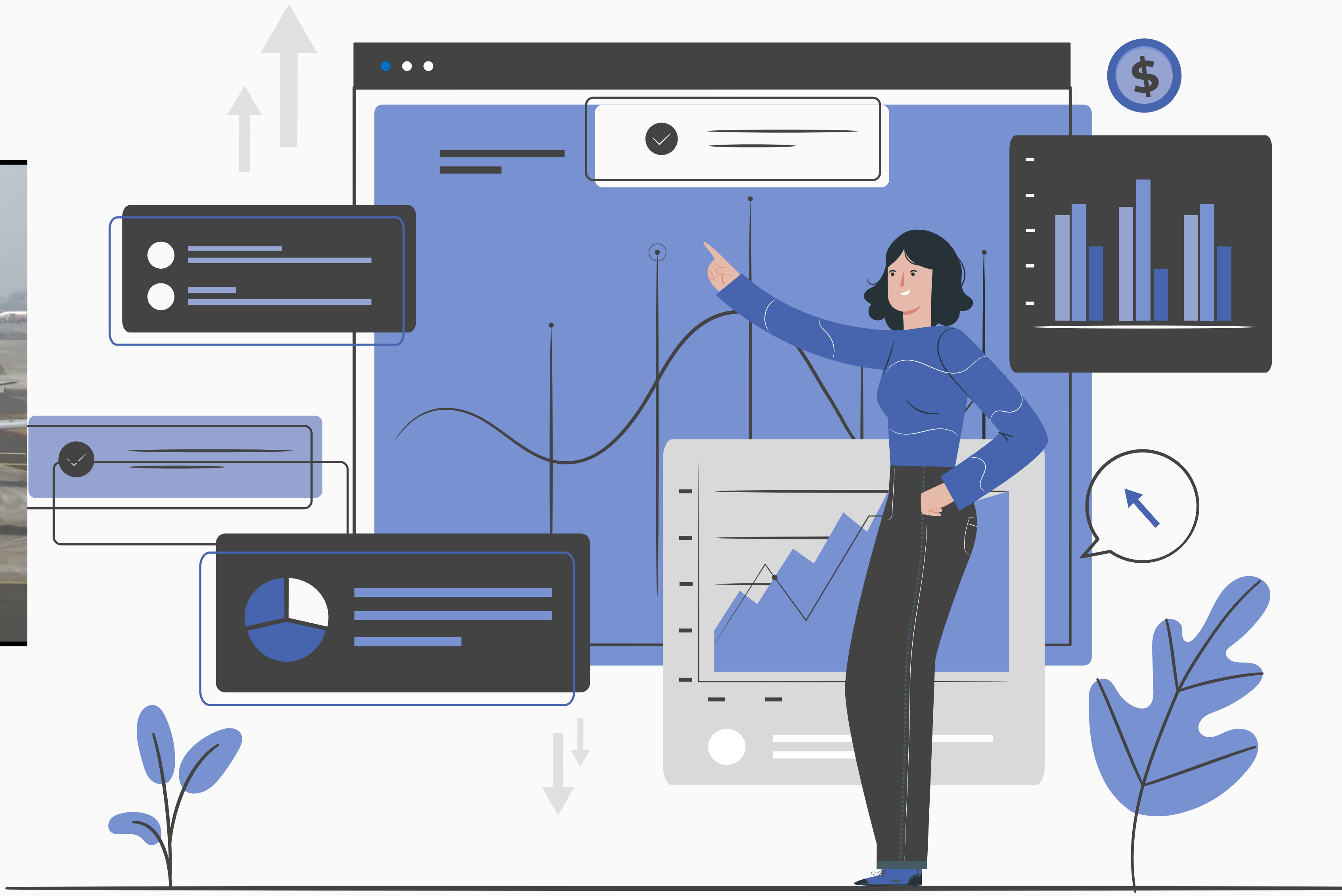
Economic Analysis on Jet Airways



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01. Introduction

1992

Naresh Goyal introduces a new airline in order to compete with the Indian supergiants Air India and Indian Airlines in the Indian Aviation Industry

2001

Jet Airways becomes the largest and most profitable domestic passenger airline in India

2005

Jet Airways becomes the largest and most profitable airlines for international routes also.

2006

The company's down fall begins as it acquires Air Sahara for $340 million in cash

2008

Amid the 2008 financial crises the airlines fires 2000 employs which causes insecurity in the employees and they revolt in order to get back their jobs creating hundreds of flights to get cancelled resulting in heavy losses.

2013

The company was on a stage of bankruptcy but Etihad buys 24% shares of the airlines and saves them from bankruptcy

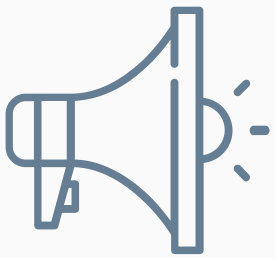
2019

Jet Airways flew its last from Mumbai to Amritsar and got defunct thereafter due to heavy losses and too much debt.

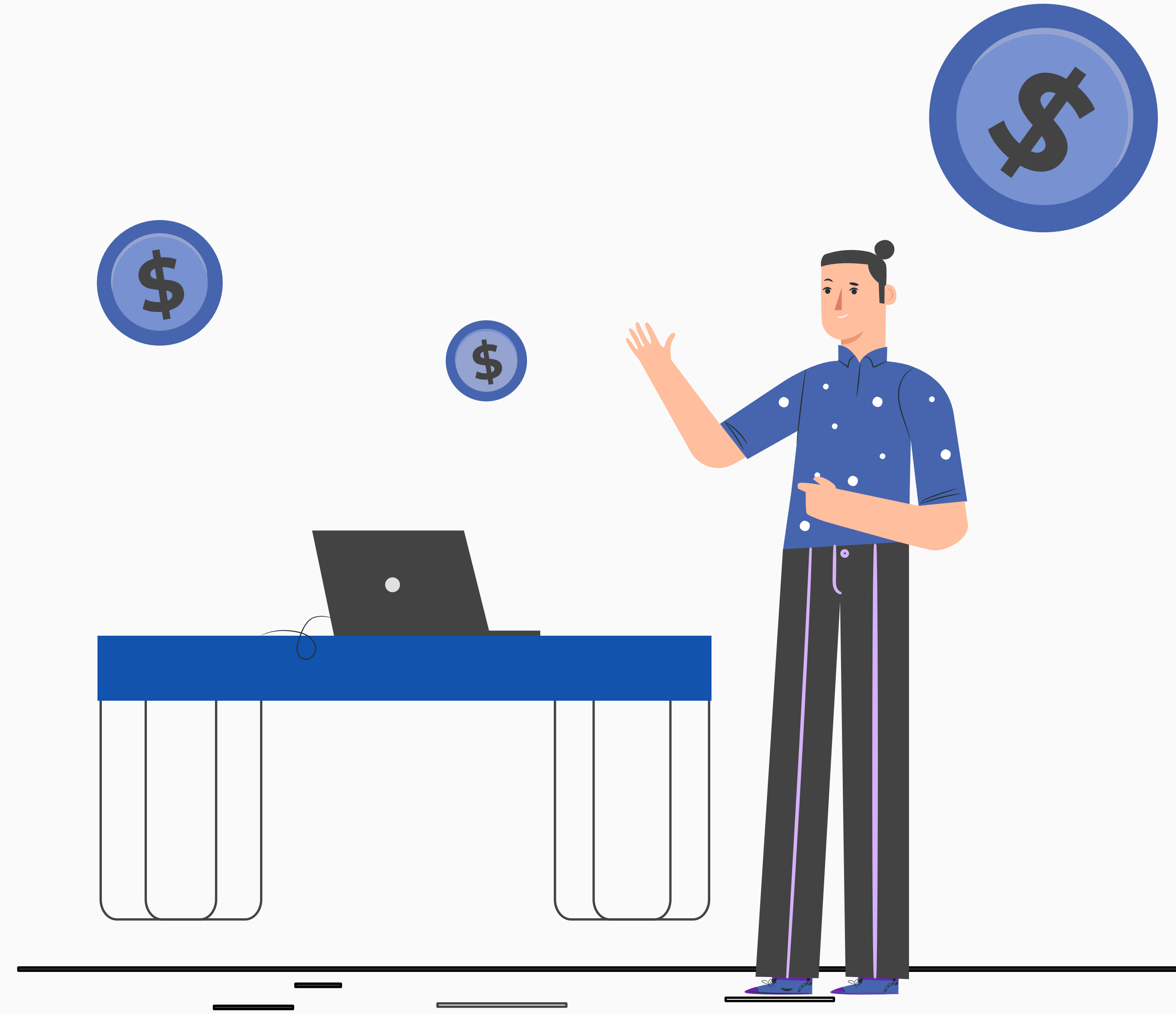
2021

The company is eyeing an comeback in the summers of 2021 but with a new policy new rules and a new Chairman

Introduction



In this slide we will be discussing about the early stages of the market when the company was making profits i.e. upto 2005 and then in section 2 and 3 we will be directly discussing the downfalls of the company why did it not function well.



After the liberalisation in 1991 the economy had boosted and the people had more incomes to spend so at that time the main airlines in India was Air India and Indian Airlines.

But these airlines had old planes in their fleet and hence they had very poor inflight services but when jet came into thr market then they had bought the plane with the most modern technology and hence had much better inflight services compared to its competitors and also due to this reason by 2001 it was the number 1 airline in India based on passenger travelled and revenue.

After this fantastic performance in the Indian domestic market Jet stepped into the international market and even in their it became the no.1 airline by 2006.But this was the point from where all the problems started and this would be discuss din section 2 and 3.

Success

1

In 1999 it was the first company who released a western design of the uniforms of air hostess.And in todays date all the airlines except Air India have a western design for their air hostess

2

In 2003 it was the first airline in India who had started the facility of inflight entertainment for its customers and today all the airlines have that facility

3

It was the first private airline in India to get the contract of imports and exports in foreign countries and even when its was about to get defunct Jet was the airline who had highest volume of goods trading via JetLite

4

It was the first airline to bring in new technologies in the Indian Aviation Industry.It bought in the facilities of e-ticketing and e-shopping in airlines.In addition to this it was also the first one to bring in then tuning and bundling model of economics into the market by providing external benefits and holiday tours to the regular and special customers.

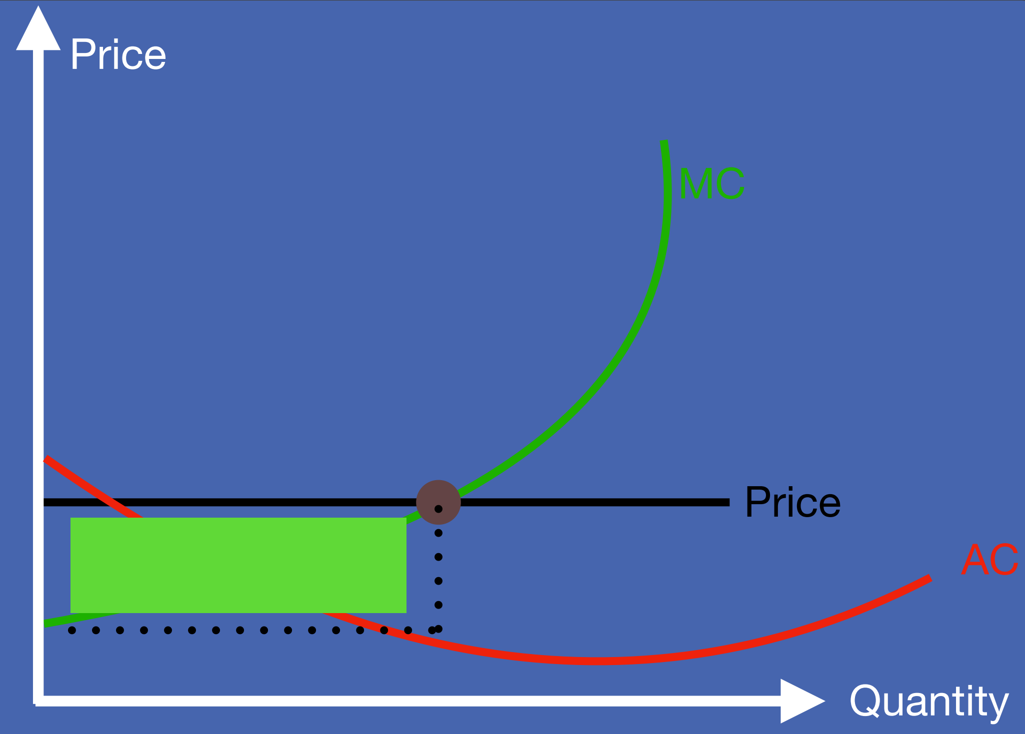
02.
Microeconomics

Market Analysis of Jet Airways

Till 2005

Until 2005 Jet Airways is making heavy profits both in the domestic as well as the international market its Marginal Cost(MR)=Marginal Cost(MC) & the price of the ticket is well above the Average cost thus giving it high profits.

In this graph it can be seen that until 2005 the economic curve was perfect and there were profits



Represents Quantity to be produced

Green box represents profit if red means reads loss

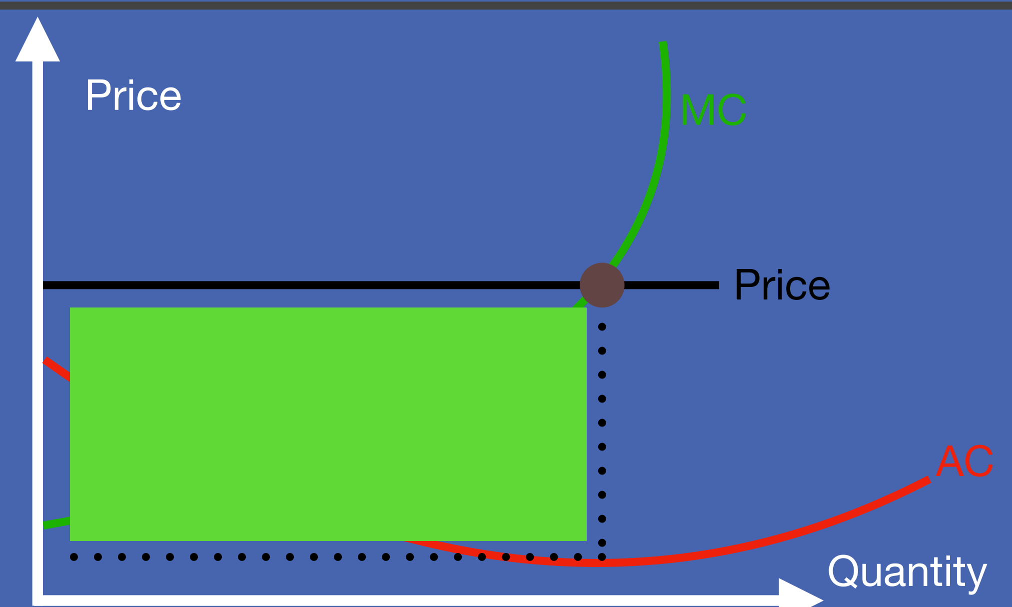
But in 2005 there came new entry in the market Indigo and SpiceJet and they both were low budget airlines

2006

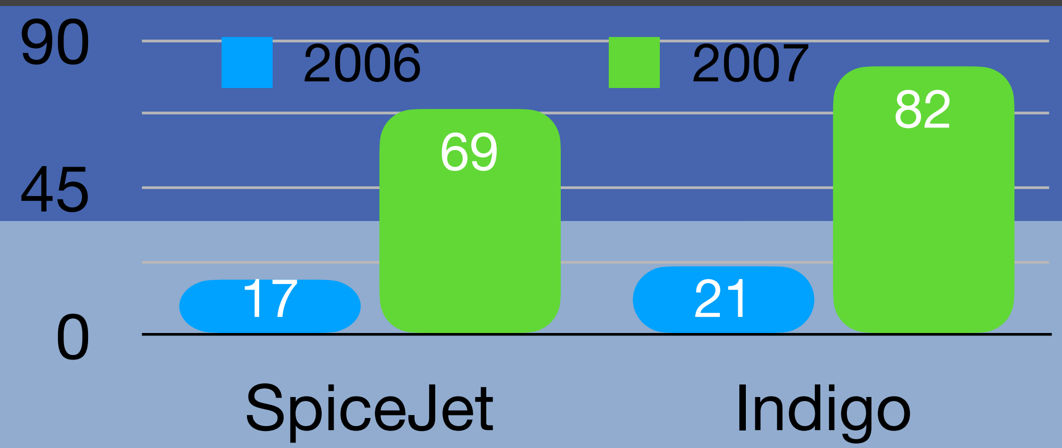
Jet Airlines decided to buy the failing Air Sahara because it wants to dominate the market so by buying this airlines it would have more planes in control and could attract more customers and would also overpower the new entries Indigo and SpiceJet.

The financial experts in the company disapproved this thing but the CEO went on to buy the company for $340 in cash.The deal was locked in April but the things turned upside down.

In late 2007 Jet had a hiked up MC because due to more aircrafts more maintenance was required and more staff too.So due to this reason the AC also had increased and in order to counter this they had to hike up their ticket fare.Initially the people were buying even the expensive tickets but late on they saw that Indigo and SpiceJet were offering a bit inferior service for a much lower price so they went on to buy the cheaper ticket but this was not creating a big mess as people were happy with the services of Jet as they had a really good Inflight service.The thinking was right the profit would no doubt go up but this game the competitors a chance to bounce back.So as shown in the graph the profit I.e the green rectangle increases but the company didn't have the money to withstand the MC as it had given a huge chunk of payment in cash and the 2008 recession and oil price hike made things worse.



Indigo and SpiceJet had understood this move of the Jet and they too rented new planes so that they could maintain the consumer demand.This was also a fault of Jet usually all the airlines rents planes but Jet used to Buy them.In the graph beside the blue histogram represents the fleet size in 2006 and green one is the size in 2007



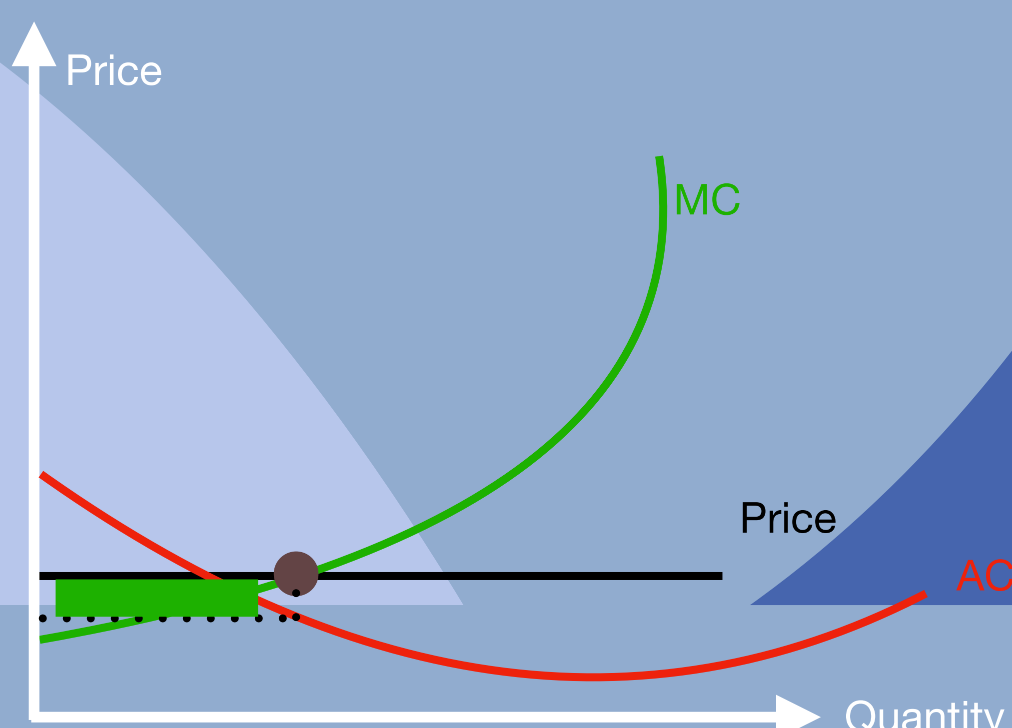
2008

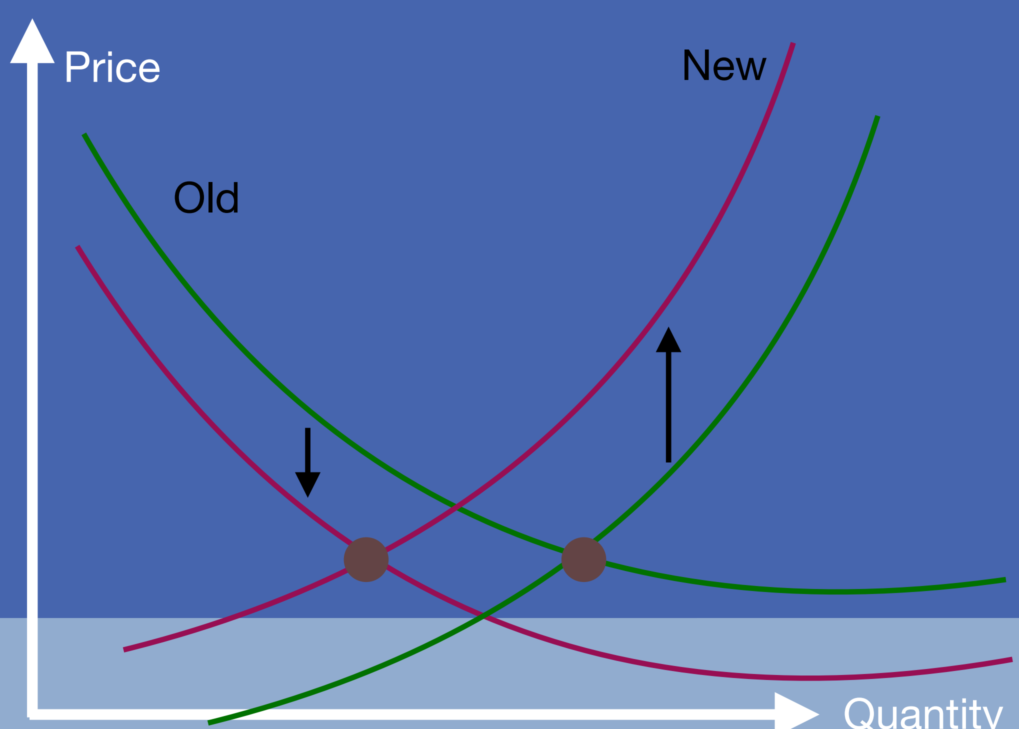
In 2008 an economic recession hit the world and due to this the cost of oil increased and the value of rupee deteriorated. Due to economic recession the income of people decreased and now people preferred low cost airlines.

This hike in oil prices also influenced Indigo and spiceJet but these airlines only rent their flight so they reduced their renting during this time and were saved from quite a loss as they could reduce their price even without facing losses .This could be understood by using the supply and demand curve.

In here we see that since the demand has fallen the supply of flights also fall so less flights run although paying the extra staff is an external cost but that can be ignored now.

But if we the the MC and AC curve we still see that Indigo and SpiceJet made some profits although small but at least some profit was made .





Too Much debt

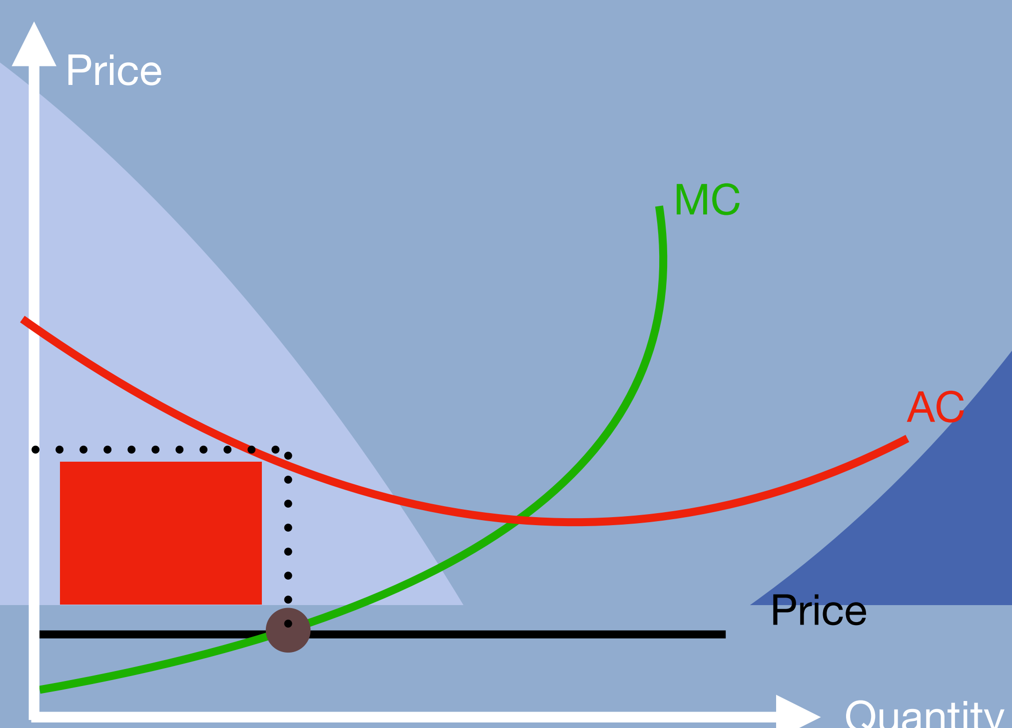
2008

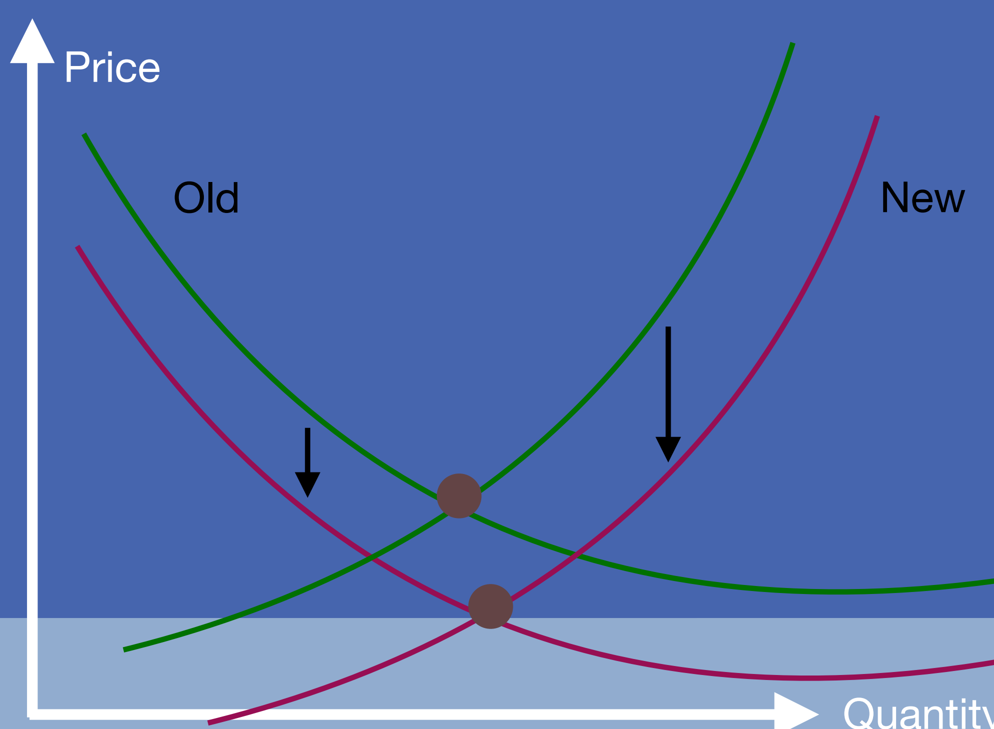
But the story of Jet Airways was not the same in early 2008 they had bought 5 new Airbus and 6 Boeing jets due to large number of customers and thus applying a very aggressive approach.

This hike in oil prices influenced Jet a lot.Since they had increased their fleet size their supply had increased and their demand had decreased.This resulted in the equilibrium price of Jet going down.But this was not the case initially they kept the price high so due to this the flights were empty and hence had to lower price and keep it below AC.The situation was such that MR<MC as portrayed in the graph.

Since the price decreased the price was now lesser than AC causing losses but this was against Jet. But the only way to prevent this is to increase the price but this would hamper the equilibrium and hence people wouldn't prefer Jet.

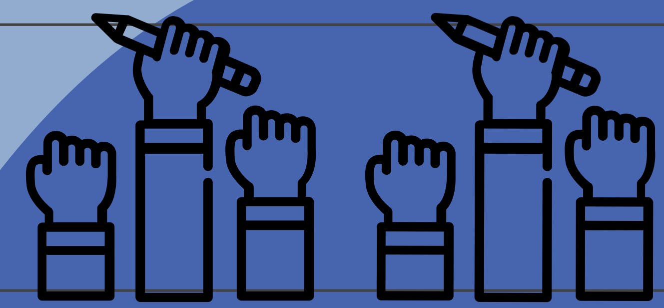
This is what happened Jet hampered the equilibrium.They started doing cost cutting by keeping bills pending and also salary cut angering the employees.They also switched the inflight entertainment reduce costs.So the situation was that the price was still high even after cost cuts and not good services which resulted in the airline to falter.





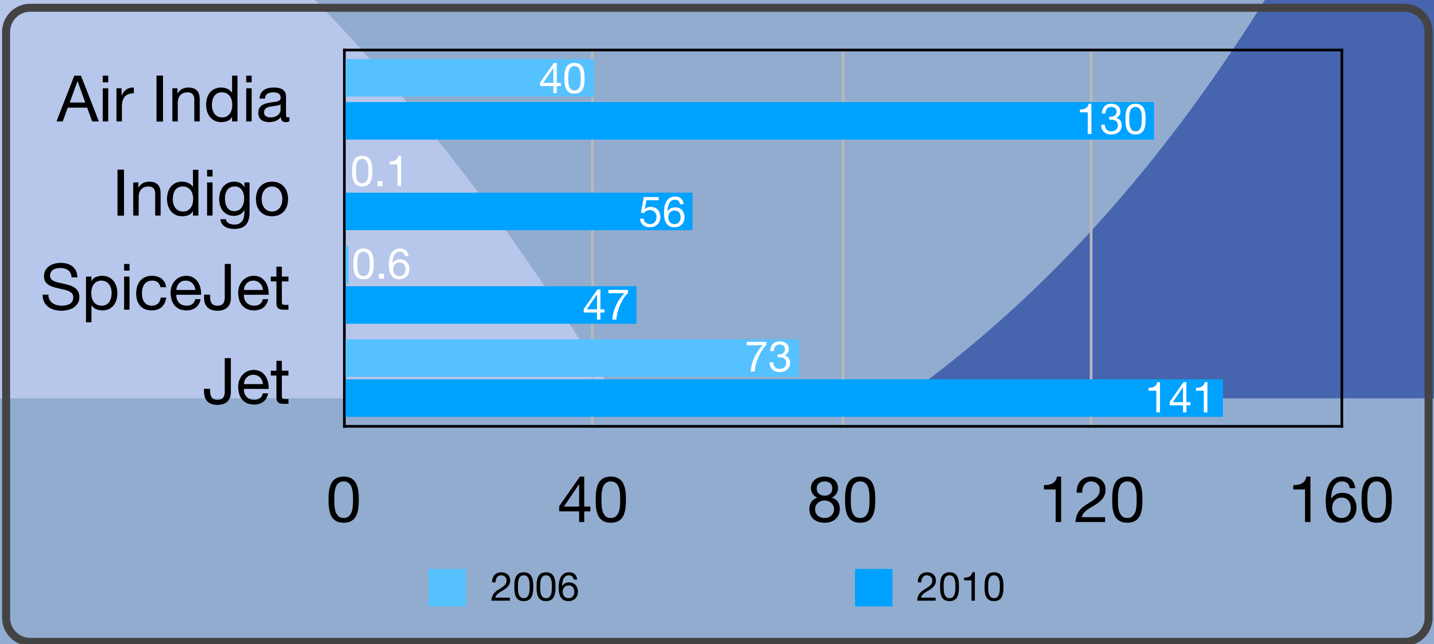
2008

As the country was trying to heal the wound of recession Jet had to fire 2000 workers to cope up with the expenses and the revenue.Due to this the workers and the staff of Jet were on a revolt against the management .



Due to this the govt had to intervene and the employees also got under confident that their jobs is not unsafe hand>they were not paid since last many months and since by the concept of sticky wages this degraded the morale of the employees and they let up to a revolt

This deadlock went on for quite a few weeks and due to this a large number of flights and services was cancelled which incurred heavy losses on the Airlines.The deadlock was finally resolved when the govt intervened and the workers formed a Working Union recognised by the govt.



Passenger movement in the last few years in Lakhs
The growth of Jet is the lowest the rest have grown very well

2009-2012

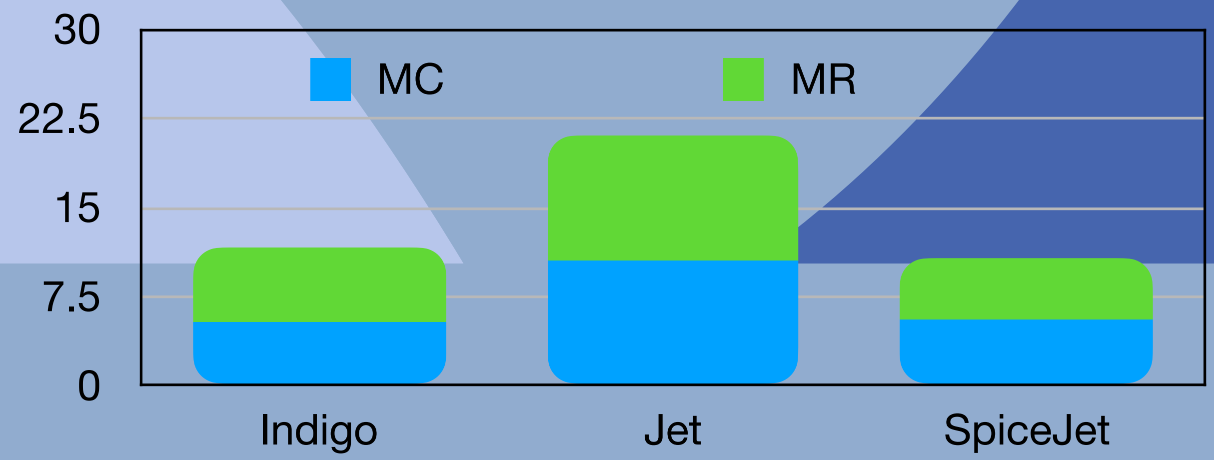
In these 3 years the Market of aviation was getting tougher and tougher but once the recession was over Jet seemed to be back on track but not completely.They improved their inflight services and tried to keep their domestic fare reasonable.

In this time Jet was the largest good exporting airline to many parts of the world but this was just a temporary success.

2013

During the summer the company had gone bankrupt and the debt was too high and it was high time to pay the debt but during this stage Etihad came in to help Jet they bought 24% of their shares but Jet also had to sacrifice 3 parking lots at Heathrow airport and 51% of their goods trading share.

But here again they became aggressive as soon as they received investment the went to buy planes in 2013 and also increased their inflight services and business class standards.



This represents the MC and MR of all the airlines per flight in the FY 18
We see that for Jet both the values are almost the same which sates that they were barely making any profits and its time for them to close down.

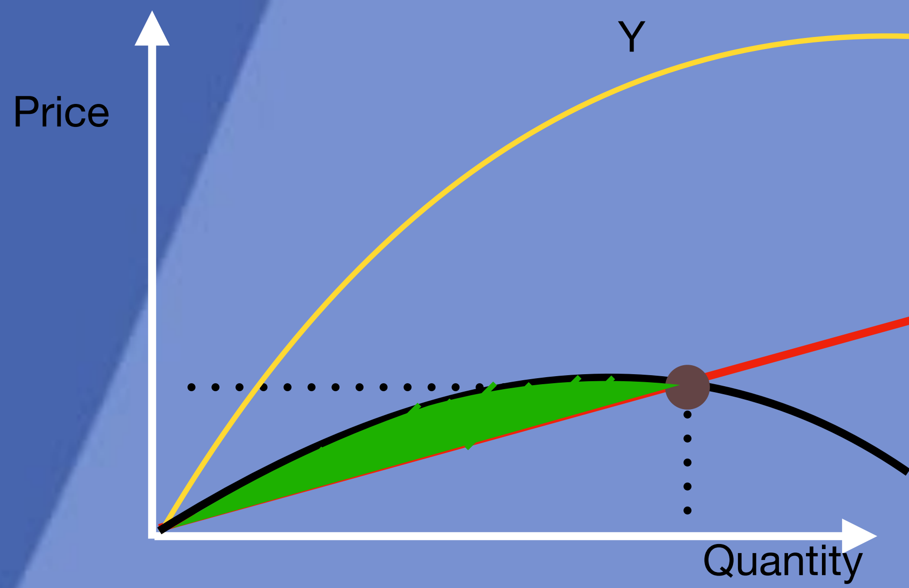
03. Macroeconomics

In the macroeconomics part we will only be discussing the analysis from 2006-2013 as the rest remains same as that of Microeconomics part

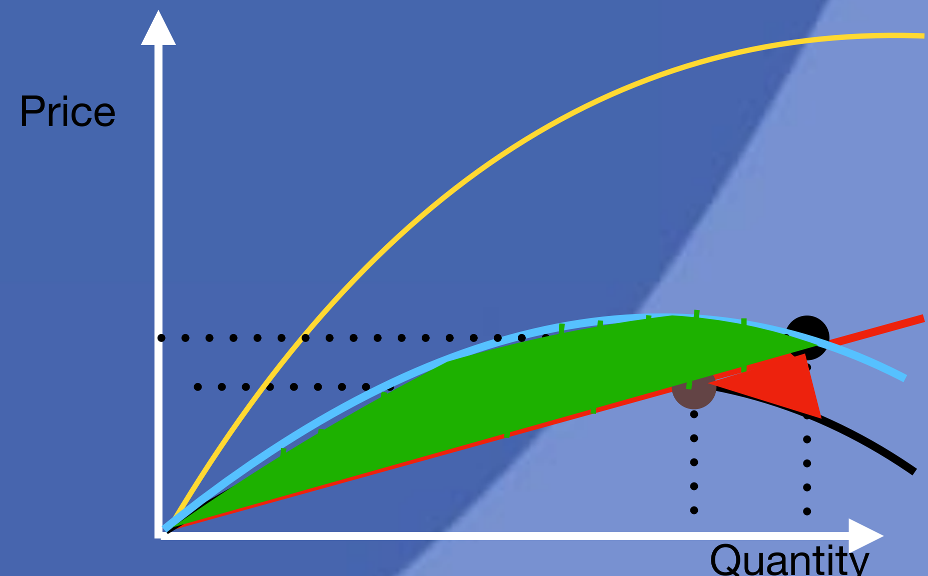
2006

In 2006 Jet airways was intakes to acquire Air Sahara and that too in cash which would deplete the entire money holdings of Jet. But in 2007 the company went ahead to acquire the other one.
As a result the company had increased its marginal output(k) and correspondingly “y” also increased but the company didn’t have savings to put in investment but the depreciation cost has increased since there are more flights now which would reduce the overall functional fleet of the company.

Depreciation cost Investment cost



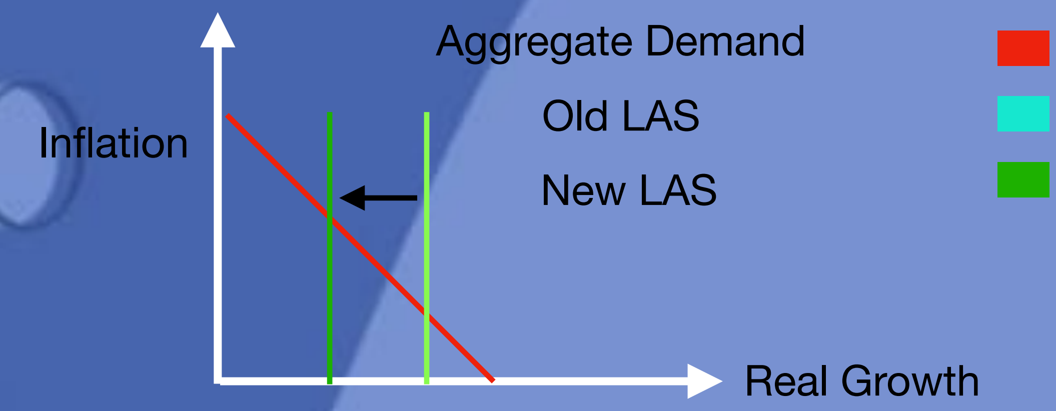
But here another decision of the company made it look vulnerable they were not ready to decrease the quantity of flights so they thought that they would rise the quantity. Ow bear some losses but they will get converted to huge profits afterwards.



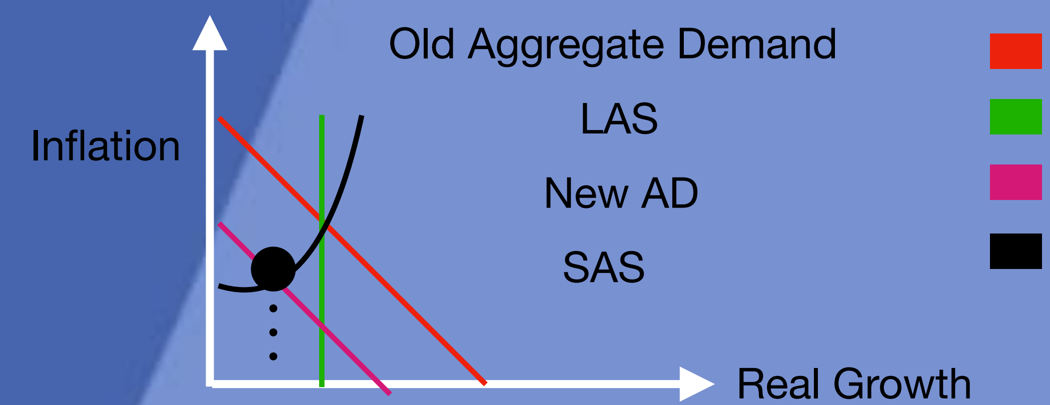
Depreciation cost
Old Investment cost
New Investment cost
Initial losses
Final Profits
New quantity supplied

2006

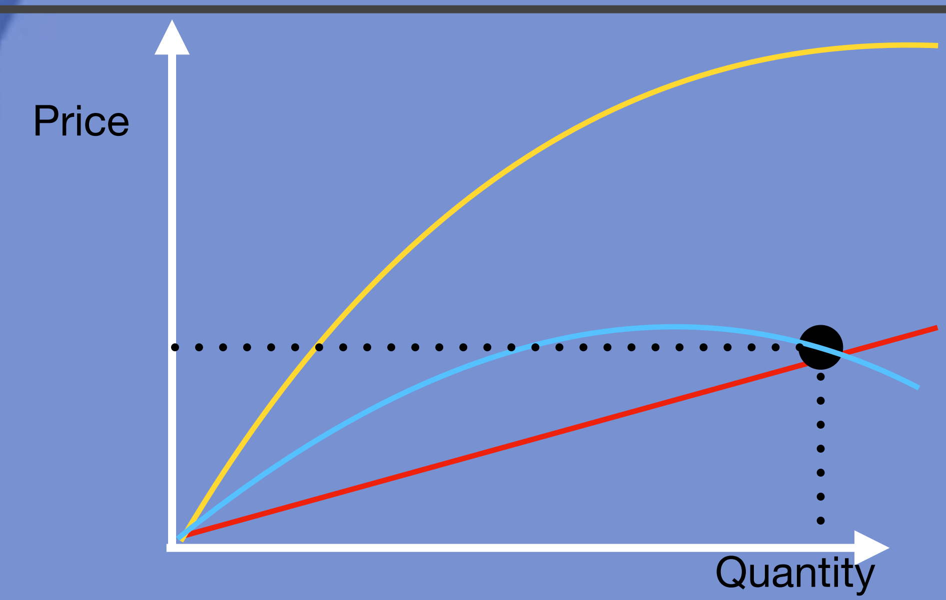
But the risk taken by Jet turned to be a disaster for them.In 2008 owing to the recession in US the oil price rises and due to this we get a negative shock which moves the Long Aggregate Supply left.Due to this inflation increases means the price of tickets increase and growth decreases



But as recession hit the income of the poeple also decreased and due to this the demand curve fell down decreasing the real growth even more.This was turning ugly for Jet as people now went on to buy cheap tickets but Jet was not in a position to reduce fares coz already it had faced losses due to increase in quantity so they went on to reduce the wages of the workers..

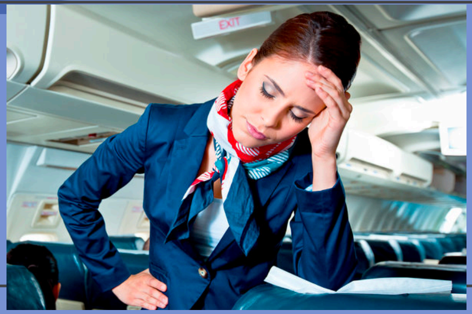


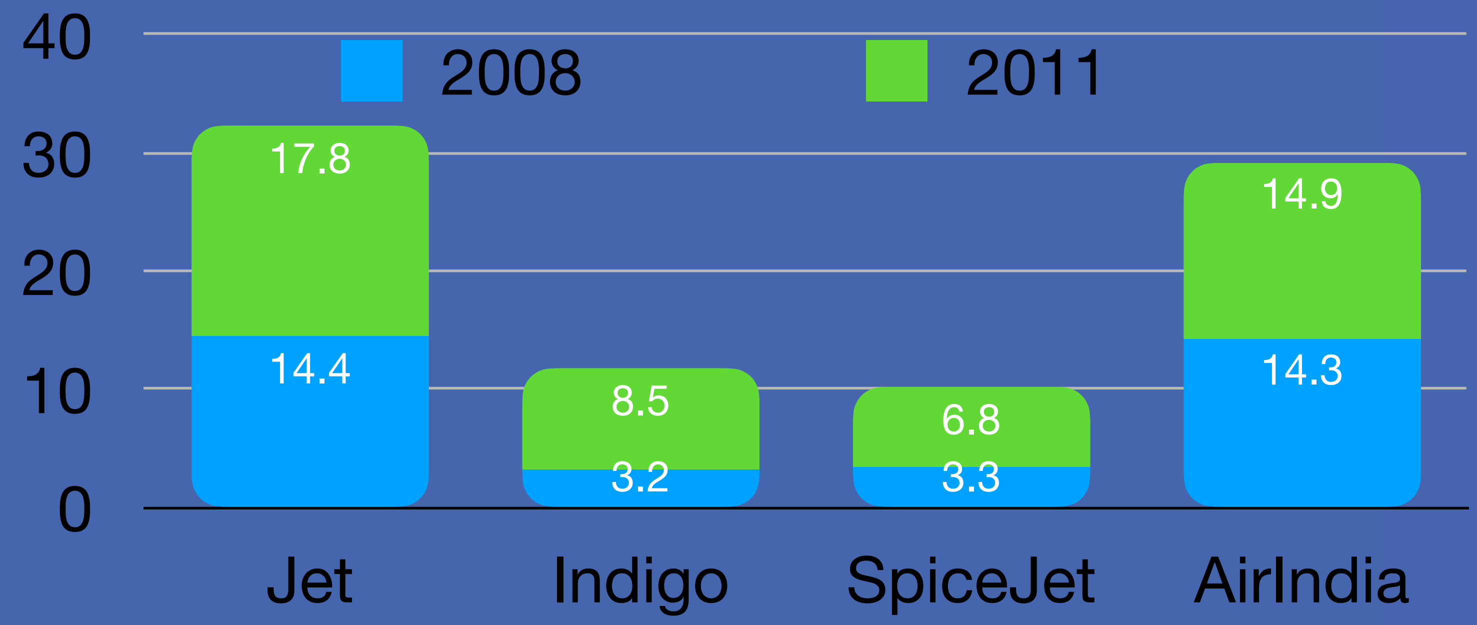
Now since they were already residing in losses they had to increase the investment inorder to stay alive but they didn't have funds so they took loans from investors and banks to increase the investment so that they could hold their situation during the recession and continue once the recession is over by hiking up the price and squaring off their debts.



But in 2008 due to wage cuts for few months the workers were up for a protest which turned the things for Jet even more challenging.Due to this reason many flights were cancelled in day and his went on for few weeks before the govt had intervened and settled all the issues of the company.

As expected the recession was over by 2009 and now the things were back on track and jet also had a fair year ahead with profits but they were not sufficient to clear off the debt and in addition to this the staff were still not happy as their salaries were not paid on time.Due to which their inflight services dropped and cerated a negative impression in the minds of people.



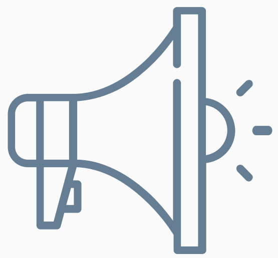


This shows that although Jet had decent years but still Indigo and SpiceJet speeded to be overpower the market

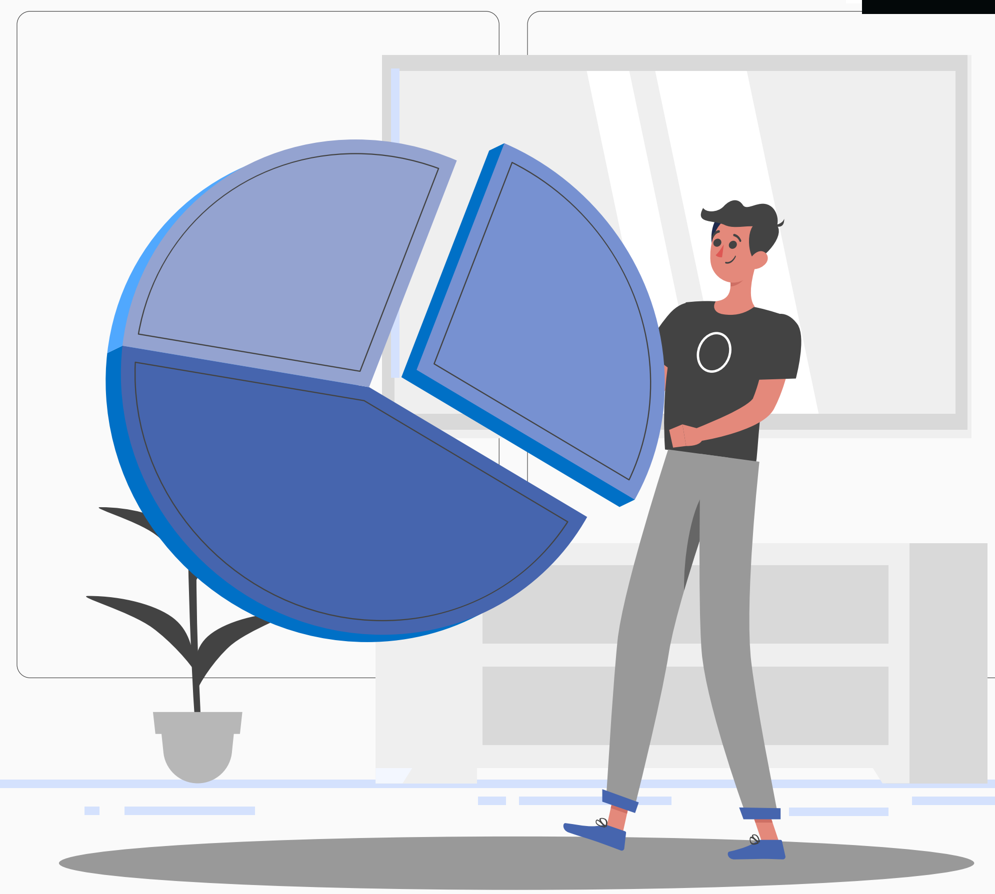
But the companies run was in danger as the term for money payments was due in 2013 but in this time Etihad had stepped in and to help Jet they bought 24% of their shares but Jet also had to sacrifice 3 parking lots at Heathrow airport and 51% of their goods trading share.

The company yet couldn't maintain its debt and hence got insolvent in 2016 and defunct in 2019

04.
Closure &Comeback



On 19 April 2019 Jet Airways flew its last flight from Mumbai to Amritsar and from then onwards the company has been defunct.



Comeback

1

London based asset management firm Kalrock Capital and entrepreneur Murari Lal Jalan are all ready to take control of Jet airways. And if goes well along with govt approval Jet Airways could be up and running this summer.

2

Jalan & Kalrock pick up an 89.79% stake in the airline. Banks will own 9.50%, employees will get a 0.5% stake and the public will control the rest.The previous owners Naresh Goyal, his family, Etihad Airways and other financial institutions will be wiped out.

3

Even if they get the permission a comeback is not easy.Bagging of investment again is difficult because the earlier vendors had to take a haircut of about 9%-14%.Due to this security is needed and as a result of this Employee groups will get ₹113 crores over a claim of ₹1,200+ crores in the first 180 days and banks will get ₹1,010 crores against a claim of ₹7,454 crores, over five years.In addition to this investors will have to draw up new contracts with fuel retailers, aircraft leasing companies, caterers and pretty much anybody that is essential to keep the operations going.

4

.Jet will also ask and take lease for new slots coz because of bankruptcy some 810 slots belonging to Jet — prime slots in major airports were put on the block. They went to other competitors, albeit "temporarily". Unfortunately, getting them back won't be an easy task for Jet.

Thank You !!