



How do some airlines make profits? -2

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This is a sequel...

- We had an article on same subject -18 Feb 2012 –see below
- After two years how has Indigo performed!?
- **Beyond their own imagination!**
- Their projection for 2013 three years before was Profit Rs 58cr
- Actual a whopping, eye-popping Rs 787 crores which made every one stand up- a six fold increase in profit compared to previous year
- A majority of profit came out of operations –even though it did include some ‘sale and lease back’ profits-financial re-engineering
- **How do they do it in an industry which makes ‘Millionaires out of Billionaires’!**

The stark comparison Jet V Indigo

- **Jet loss in 2013 Rs 779 crores (2014 : 4130 crores!)**
 - **Indigo Profit in 2013 Rs 787 crores!**
 - **Figs almost same but in opposite direction!**
- Jet –no. of aircrafts 120; flights/day: 620; destinations: 75
 - Indigo no. of aircrafts 70; flights /day: 447; destinations: 34
- Jet Market share 22.9%
 - **Indigo Market share 30% with less aircrafts**
- Ethihad investment in Jet has lost \$379M- after 4 CEOs post their investment no change its fortunes
- What went wrong with Jet and
 - What is right about Indigo?

What went wrong with Jet?

- Jet lite merger (Sahara) which is bleeding
- Huge debt
- High head count
- Expat pilots earning 40% more
- Business class seats that go vacant and even if filled do not earn same as equivalent economy seats
- Training constraints leading to lost pilot hours
- Out dated contracts like 2007 Lufthansa agreement which are above market price
- Conflicts and debates with Ethihad; non implementation of Joint procurement program etc
- Its weakening hold on international routes (Ethihad fights cheaper than Jet!)
- Client confusion arising out of Jet Konnet flights operated as Jet flights

The Indigo superiority-metrics

Comparison Indigo V Jet	Indigo	Jet
Load factor	80.80%	78.80%
Avg KM/plane	1607	1048
Avg hours air borne	2916	2455
Passengers/000 km	131	126
Revenue/destination	278	228
Flying hrs/day/destination	13	8

The Indigo difference-1

- **More traffic in less routes**
- Only 29 domestic and 4 International routes
- 27% more passengers (others carried 5% less)
- Only one new route added last year!
- Don't spread thin on many routes
- Each destination should at least lead to 4 different cities
 - E.g Ranchi
 - To Delhi, Patna, Mumbai and Bangalore
 - Being added : Kolkatta and Raipur

The Indigo difference -2

- Less turnaround time
 - Aircraft makes money when it flies –Southwest slogan
 - Readies aircrafts in 31 minutes (from previous 35m)
 - Keeps planes 12 hours a day flying high

The Indigo difference -3

- Power by hour agreement with suppliers
 - Pays for every hour an aircraft flies- variable cost!
 - Spare parts arrangement is supplier worry
 - No inventory of spares
 - No grounding of planes as spares always available!
 - On the other hand Kingfisher with same aircrafts, grounded because of Engine snags!
 - Technical dispatch reliability 99.4% is the Best in the world!

The Indigo difference-4

- Only one kind of aircraft
- Southwest follows same policy- they use Boeing –Indigo uses Air bus A 320
- One set of pilots
- One set of spares
- One set of engines etc
- Also familiarity increases

The Indigo difference-5

- Always young fleet!
- 6 year sale and lease bank
- So new plane every 6 years! Latest technology- minimal repairs!
- No D Check- after 8 years planes are stripped to check what parts need replacement- this is totally avoided!
- Increased capex in down turn!
- New A 320 planes being added have 15% better fuel efficiency!

The Indigo difference-6

- Control the biggest cost-Fuel
- Pilots trained to save fuel
- Optimum way of climbing to 32000 feet
- Switch to one engine when taxiing in the runway
- Avoid circling the airports by timing the flights
- When planes stand still- check cost of Auxiliary power V Ground power and save fuel cost-Ground power cheaper

The Indigo difference-7

- More productivity
- EMPLOYEE PER AIRCRAFT
 - Indigo- 100
 - Jet- 130
 - Air India- 262!!!! (No wonder they are bleeding!)

The Indigo difference-8

- Attract the Business traveler
- **By being on time most of the time**
- Also due to Dynamic pricing and passenger loads the so-called low cost airline charges more than the other airlines!
 - Fares climbed 20%!

The Indigo difference-9

- **Sweat the small details**
- Only Catalogue type in-flight magazine –compare their magazine and the other colorful ones! Frugal to a fault
- Ancillary revenue 9% of total –like baggage fee, special seat fee etc
- Better profits ensure better cost of capital /less cost of borrowing
- C checks done in Srilanka (others use Dubai, Hong Kong, Singapore!) reducing fuel cost
- Like Kingfisher no major ad spends –promoters are low-profile
- Before starting airline co Interglobe managed operations for other airlines –so they knew the tricks of the trade!
- Service –even airport lounges for low cost airline

Sources

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- Indigo Airline cracking the Profitability code-Strategic moves
- What keeps Indigo's profit flying high –Business Standard
- The secret of Indigo's consistent profits-ET
- Indigo Airline operations in India –Sushant singh
- Nuts- story of Southwest airlines, USA