Turkish Online Journal of Qualitative Inquiry (TOJQI)
Volume 12, Issue 6, July 2021: 5256-5268

JET AIRWAYS (INDIA) LTD.: A CASE OF FINANCIAL CRASH LANDING IN THE INDIAN AVIATION SECTOR

Uma Ghosh[1], CA Geetanjali Pinto[2]

[1]Assistant Professor, Institute for Technology and Management Navi Mumbai, Maharashtra, India
[2]Assistant Professor, Institute for Technology and Management Navi Mumbai, Maharashtra, India

ABSTRACT:
The case deals with the evolution and structure of the Indian aviation sector since its inception. It also provides a detailed view of the transformation of the Indian aviation sector due to the liberalization of the Indian economy. The opening of the privately-owned full-service airlines (FSA) and low-cost airlines (LCA) led to major changes in the market share of the airlines. The focus of this case study is to evaluate the journey of Jet Airways (India) Ltd. (JA) since its inception in 1991, its collaboration with South African Airways and subsequent conversion from a private limited to a public limited company. The case documents the existence of JA as the only privately-owned profitable airline operator in India till its cessation in 2019. After merging with Sahara Airlines at a valuation considered critically high for an already loss-making airline, JA's losses continued mounting. Further, the case critically evaluates various other factors: rebranding of Sahara Airlines (JetLite), mismanagement by the board, high operating leverage, continuing losses and high debt-equity ratio which eventually lead to JA's financial crash landing. This case can also serve as a tool for investors and other stakeholders for fundamentally analyzing stocks of Aviation sector.

Type of Case: Decisional and Applied

Keywords: Leverages, capital structure theory, sustainability, financial strategy, fundamental analysis, Aviation sector, India.

INTRODUCTION

Initially, Air India and Indian Airlines enjoyed a monopoly in India's aviation sector and thus held most of the market share. However, by the year 2000, the number of private airlines and Low-Cost Airlines (LCA's) had steeply increased. During this time Jet Airways (India) Ltd. (JA) established itself as the only privately-owned profitable airline operator in India. Privatisation of the Indian airline sector led to tough competition amongst the players.

JA was one of the very few operators that manged to survive the struggle. Till 2012, JA was one of the leading airlines and controlled nearly 23 per cent of the market share in the Indian aviation sector. Eventually it fell prey to the LCA pricing strategy which led to decline in profitability as well as its market share. The continuous increase in fuel cost along with low profit margins and surmounting debt ultimately led to the closure of its operations in April 2019. However, after having been grounded for more 20 months, in October 2020, a new set of investors have officially acquired JA. Now, is it possible for India's oldest private air carrier to take flight once again?

A HELICOPTER VIEW OF INDIAN AVIATION SECTOR

Airline sector of India is one amongst the fast-expanding aviation sector around the globe (Indian Mirror). Indian Air Services in association with Imperial Airways commenced operations in December 1912 with its initial internal flight between Karachi and Delhi. Airmail services were started by Tata Sons Ltd. for the first time with no government assistance. The Civil Aviation Ministry of India is responsible for civil aviation in India (Aviation in India , n.d.). The Directorate General of Civil Aviation (DGCA), functioning under the aegis of the Ministry of Civil Aviation is the governing organization accountable for the supervision of the security of entire civil aviation in India (DGCA Rules and Regulations, 2018).

Evolution and structure

The Indian aviation sector underwent a complete transformation due to the liberalization of the Indian economy. The sector witnessed the opening of the privately-owned full-service airlines (FSA) and low-cost airlines (LCA). The growth of the middle class and increase in their purchasing power, expansion of the tourism activity in India, low airfares offered by LCA's, growing foreign travel from India and the overall financial growth of the Indian economy led to an increase in demand for air transportation in India.

After the liberalization of the aviation sector in India in 1994, there was a burst of many private airlines in this sector. As discussed above, there was an enormous possibility for growth in the aviation sector due to the thriving tourism sector, increase in disposable incomes and favourable demographics of our country which also led to liberalization. However, the deterioration in the profitability of national airline players: Indian Airlines and Air India and their inability of catering to growth in airline passenger demand were the major reason for the deregulation of the Indian aviation sector.

Further, the statistics showed that India had only 565 commercial airplanes for 1.3 billion people in 2019 (Singh, 2020). As compared to that the United States had 7,309 commercial airplanes for its people 328 million (Singh, 2020). The poorly developed airports and their pitiful state added to the already existing problem. Many of them were declared practically useless. Also, the majority of them had only one functioning runway while the US had about five.

Table 1 provides a history of public and private airline providers in India. Since the enforcement of the 1994 Act, private airlines were permitted to run scheduled as well as non-scheduled services within the nation with very few curbs on volume and category of aircraft. Nonetheless, table 1 shows that many private airline operators like East-West Airlines ceased to operate within a few months of starting their operation, even though they were successful in attracting a substantial amount of market share.

Initially, only two of the present private airlines: JA and Air Sahara could operate on overseas routes after that six additional players became authorized to commence operating within the nation, which were Kingfisher Airlines, SpiceJet, Go-Air, Paramount Airways, Indigo Airlines, and Indus Air. However as of 2011, apart from Air India and JA; Kingfisher Airlines, Jet Lite, IndiGo and SpiceJet were also allowed to operate regular overseas flights from India (Hindu Business Line , 2018). The new entrants were able to obtain 44 per cent of market share in Indian aviation sector which had led to a significant reduction in the market share of former players: Indian Airlines, JA, and Jet Lite (formerly known as Sahara Airlines) (Sekhar, 2016).

Table 1: History of Airlines in India

Airline	Year of launch	Year of cessation
Imperial Airways (now part of British Airways)	1912	
Tata Airlines (renamed as Air India)	1932	
Deccan Airways *	1945	1953
Air India	1946	
Indian Airlines	1953	
East-West Airlines *	1991	1996
JA *	1993	2019
JetLite (formerly known as Sahara Airlines) *	1993	2019
Air Deccan	2003	
Kingfisher Airlines *	2005	2012
SpiceJet	2005	
Paramount Airways *	2005	2010
Go Air	2005	
IndiGo Airlines	2006	
Air Costa *	2013	2017
Air Asia India	2014	
Vistara Airline	2015	
Air Pegasus *	2015	2016

** Operations ceased*

Source: https://shodhganga.inflibnet.ac.in/bitstream/10603/197942/8/08_chapter1.pdf

The development of aviation sector in advanced economies of the west as well as the east showed that low-cost was the key to quick growth in this sector. Hence, the trend in Indian aviation sector then was the emergence of multiple LCA's. With only one LCA in 2005, there were five LCA providing services across various destinations in India: Air Deccan, SpiceJet, Go Air, IndiGo and Air Asia India. Earlier air travel was associated only with metros in India. However, due to the existence of these LCA's, there existed airline connectivity to various Tier II cities and towns in India also. That indicated that those sections of people that could afford airline charges but could not fly due to unavailability of flights from their region were able to utilize the LCA's services to their advantage.

Prior to liberalization of the aviation sector, there was only one player: Indian Airlines. The Indian sky traffic was almost vacant, and runways were clear. However, by the year 2000 the number of private airlines had steeply increased. Tough competition started to exist in the aviation sector due to privatisation of the Indian airline operators. JA did give a stiff competition to Indian airlines, with Sahara Airlines (renamed as Air Sahara in 2000) providing a further competitive edge to the condition. Further, due to the entry of LCA's like Air Deccan, SpiceJet, and IndiGo Airlines in the market, a tough competition started in the aviation sector.

After the existence of a multiple players as can be seen in Table 1, the aviation sector went through a phase of consolidation in 2007. In 2007, Air Sahara (formerly known as Sahara Airlines) was taken over by JA; Kingfisher Airlines bought Air Deccan and the domestic carriers: Air India and Indian Airlines announced their merger to improve operational as well as managerial efficiency. There was a very quick change in the number of players operating in the aviation sector. From being a fragmented industry with multiple operators serving under tough competition, with only three major operators: Indigo, SpiceJet, Air India left in operation in 2019. Thus, the aviation sector was completely transformed right from its inception in 1912 to the fall of a major international airline in 2019.

Figure 1 provides the history of turbulence in aviation sector right from inception till 2018.

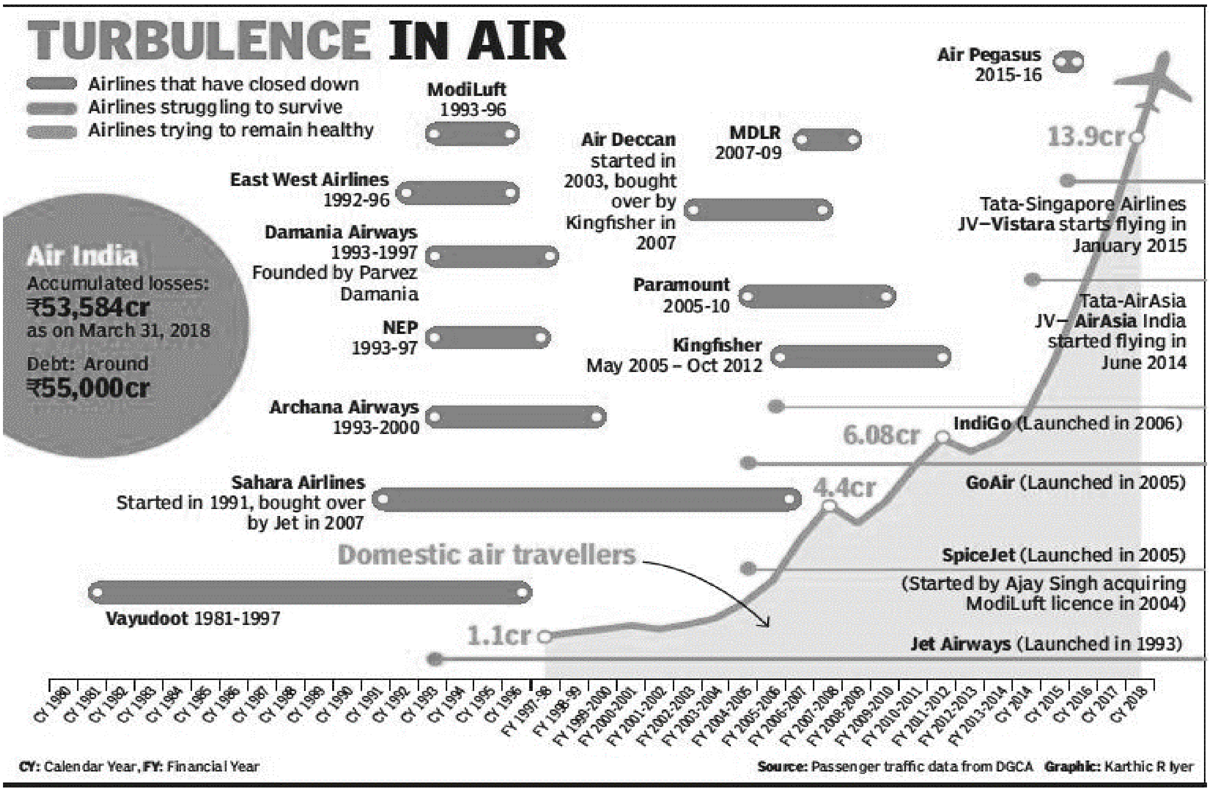


Figure 1: History of turbulence in Indian aviation sector

Source: epaper.timesgroup.com

GROWTH AND MARKET SIZE

A rise in the number of middle-class and upper middle-class consumers in India accompanied by an improvement in their economic condition enhanced the progress of the airline industry. Due to the increase in demand, the Indian government planned to expand the total airports to 250 by the year 2030 (Satpathy, Patnaik, & Kumar, 2017). This improvement in infrastructure was a result of enhanced commercial and tourism activity in the country. The foremost necessity of the aviation sector would always be the growth of airports. The Indian government intended to spend around US$12.1 billion including private investment of US$9.3 billion (India Brand Equity Foundation Report, 2017).

The Indian aviation sector which was mainly dominated by the government owned airlines then moved progressively along with the private airline operators. The infusion of private operators improved competition in the aviation sector thus assisting improvement in both the on-air and ground services.

As per an economic times report, titled "In next 6-8 months, we expect to get bids for Air India", India was the third greatest domestic and overall civil aviation market around the globe (Indian Mirror) (Aviation in India , n.d.). There was a substantial progress in the movement of passenger as well as cargo traffic in the aviation sector over the past few years. The total air passenger traffic (including domestic and international) increased at annual growth rate of 16.3 per cent from 14 million in 2000–01 to 135 million in 2015-16 (Aviation in India , n.d.). According to India Brand Equity

Survey Report, 2017, India was 9th in terms of market size (India Brand Equity Foundation Report, 2017). The domestic passenger traffic improved by 21.5 per cent in 2017.

According to India Aviation Industry Report, 2019 (Indian Aviation Industry Report, 2019) issued by India Brand Equity Foundation, India's passenger traffic (international and domestic) grew by 16.52 per cent each year to reach 308.75 million in 2018. It grew at a compounded yearly growth rate of 12.72 per cent for the duration of the period 2006 to 2018. The domestic air traffic increased at a yearly rate of 18.28 per cent and reached 243 million in FY18 and is likely to reach 293.28 million in 2020. Global customer air traffic growth was 10.43 per cent in 2018 and reached 65.48 million in 2018 and it was projected to reach 76 million in 2020.

Further, in 2018 the domestic cargo traffic flow was 1,213.06 million tonnes and international cargo traffic flow was at 2,143.97 million tonnes. The Indian domestic air traffic expanded at annual rate of 7.93 per cent and reached 2,153 thousand the period 2018-19. Whereas international aircraft movement grew at annual rate of 6.36 per cent and reached 453.61 thousand during the same time period (Indian Aviation Industry Report, 2019). According to International Air Transport Association (IATA) forecasts (Indian Aviation Industry Report, 2019), it was forecasted that India surpass UK to become the third leading aviation market in the world by 2024.

The Indian Government thus planned to develop more airports for catering to the increase in airline movement. As of the end of financial year 2018-19, India had 103 operational airports. The government then envisioned to expand the total number of operational airports to around 190-200 numbers by the end of financial year 2040 (Indian Aviation Industry Report, 2019).

Further, the growing demand in the aviation sector also led to increase in number of airplanes under operation. Almost 620 aircrafts were under operation by July 2018. This is estimated to increase to 1,100 airplanes by the year 2027 (Shah, 2020).

Although many LCA's operated in the Indian aviation sector, air travel remained expensive for most of the country's population in 2019. Hence the aviation sector in India was essentially untapped due to the existence of enormous opportunities for future growth and development. It was envisioned that with the appropriate guidelines and persistent emphasis on excellence, effective cost-management and commuter-oriented focus, the Indian aviation industry would develop to be the largest by the end of 2030 (Indian Aviation Industry, 2017).

PEER COMPARISON - JA VIS-À-VIS OTHER AIRLINES

Figure 2 gives the details of market share for top airline service providers operating in India over a long period of time. Before the introduction of private players and LCA's in 2000, Air India and Indian Airlines enjoyed a monopoly in India's aviation sector and thus held most of the market share. This monopoly eventually came to an end after liberalization of the aviation sector thus permitting private and foreign operate in India. JA was the first such airline to commence operations in 1993.

Figure 2 shows that by the end of the year 2017-18, Indigo managed to acquire the largest market share at 38 per cent and 83.6 per cent of passenger load factor in India. The combined market share of JA and Jet Lite was 18.3 per cent. SpiceJet Airline stood at 3rd position with 14 per cent market share and 94.5 per cent passenger load traffic. Air India had the lowest market share at 13.2 per cent with passenger load factor of 76.1 per cent.

Figure 2: Market share of top players in the aviation sector in India 2017-18

Source: India Brand Equity Foundation Report, 2017-18

Figure 3 shows the domestic market share of airlines for the period 2018-19 as per data published by the DGCA. It indicates that there was further improvement in market share of Indigo Airlines and a fall in market share of Air India, JA and SpiceJet during that period.

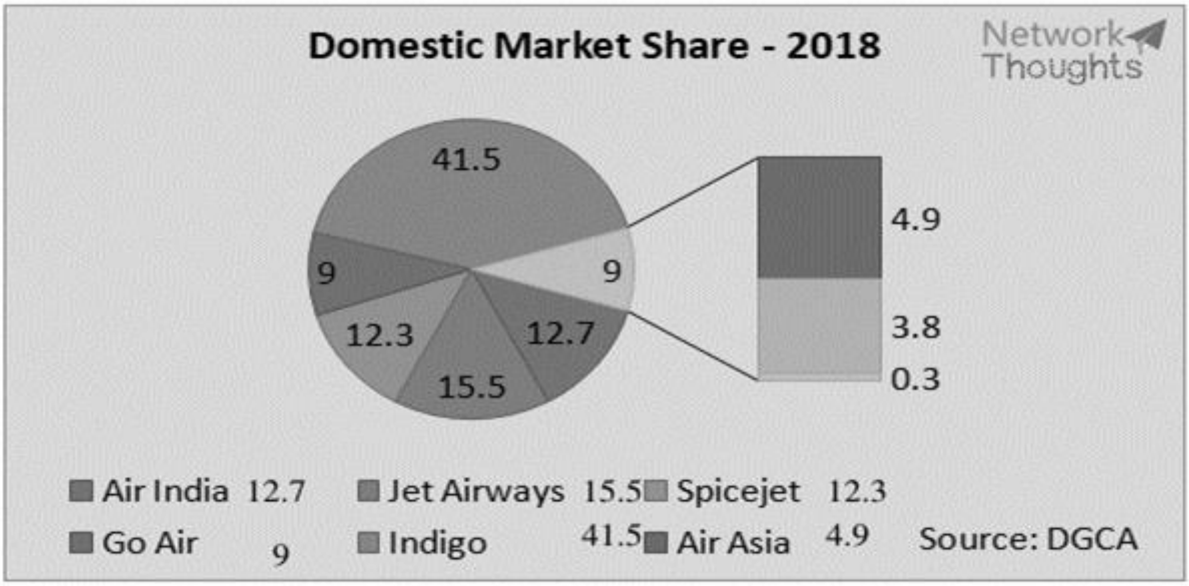


Figure 3: Domestic market share of top players in the aviation sector in India 2018-19.

Source: India Market Outlook 2019 (Ameya, 2019)

JET AIRWAYS (INDIA) LTD.

Company history and growth

JA was founded by Mr. Naresh Goyal in the year 1993 (Business Standard). He was a ticketing agent and eventually entered the aviation sector to become a business tycoon. The formation of JA brought an end to more than three decades of monopoly enjoyed by Indian Airlines and Air India in the Indian aviation sector.

The liberalization of the Indian government in the aviation sector in 1989, offered an opportunity to private operators to enter the domestic aviation market. Mr. Goyal grabbed this opportunity and formed Jet Airways (India) Private Limited in the year 1991. Subsequently, on April 1, 1992, JA was incorporated as a private company with limited liability. On

May 5, 1993, JA commenced commercial operations. By April 1994, it was the first Indian operator to run the Boeing 737-400 aircrafts. The status of a scheduled airline was given to the company on January 14, 1995. On July 1, 1996, it became a deemed public limited company. JA's main business consisted of scheduling of air transport (both passenger and cargo) and providing allied services associated with airline business (Business Standard). JA was reconstituted as a private company on January 19, 2001. The esteemed Air Transport World Award 2001 was awarded to the company for market expansion. The TTG Travel Award 2002 was also bestowed upon it for 'Best Domestic Airline'.

In 2004, the company collaborated with South African Airways. on December 28, 2004, it was constituted as a public limited company. To enter the Indian capital market through an initial public offering (IPO), JA filed its Draft Red Herring Prospectus with the Securities and Exchange Board of India (SEBI) in 2005. The funds obtained from the IPO were to be utilized to finance its global extension proposals. JA's opening inter-continental flight connecting Mumbai to London took off in May 2005.

In 2008, JA entered into a codeshare agreement with Etihad Airways PJSC: the domestic United Arab Emirates' operator. In accordance with this agreement, new shares were allotted to JA and Etihad Airways PJSC taking their holding to 49 per cent and 50.1 per cent respectively in Jet Privilege Private Limited (JPPL). Thus, from March 24, 2014, JPPL ceased to be a subsidiary of JA (Business Standard).

During this time JA established itself as the only privately-owned profitable airline operator in India. At the end of 1997, five of the seven privately owned airlines that had commenced business in India since 1992, ceased to operate (Mehra, 2011). In fact, *Airline Business*, an organisation that provided exclusive insight and intelligence for airline boardrooms across the globe had reported that out of more than 20 private airlines that commenced business in India since liberalization, JA was one of the very few operators to have survived the struggle (Mehra, 2011). The airline was an epitome of achievement amongst Indian national airline operators (Singh, 2020).

Jet Sahara merger: a consolidation of airways

JA led the first takeover attempt for acquiring Air Sahara on 19 January 2006 and offered US$500 million in cash. Despite getting a go-ahead from the Indian Civil Aviation Ministry, the deal did not happen due to disagreement on the price. The investors in the market and analysts suggested that Jet had overvalued Sahara.

The second attempt was made on April 12, 2007, when JA agreed to buy out Sahara Airlines for ₹14,500 million (US$ 338.31 million)[i]. The merged company was renamed as Jet Lite. This merger set off the consolidation in the Indian aviation industry. Through this deal, Jet realized its need to be the only private airline operator in India to operate internationally. It also expected to secure a higher market share after the deal.

Contrary to its expectations, the market share of JA fell from 40 per cent to 27 per cent post the deal. The acquisition of Sahara also caused enormous pressure on JA' financial resources and management (Ghosh, 2018). The Centre for Asia Pacific Aviation (CAPA) - India head had reported that, "Buying Sahara was a big strategic mistake by Jet. This happened at a time when Jet was growing aggressively on the international front and facing tremendous competition in local market" (Sinha, 2009).

Aviation experts had depicted the deal as a very bad decision. In 2007, Air Sahara was striving, and JA was an entrenched operator. Hence it was considered that JA had given an enormous sum for a loss-making player. Mark Martin, CEO, Martin Consultancy commented that "When you have two different airlines, you don't have either cost control or optimisation in operations. They have completely different operating structures. This played havoc into the operating structure of the airline (JA)" (Ghosh, 2018).

Revenue and Costs

The airline industry generally associated itself with high costs and low operating profit margin. The operating profit margin of an airline business depends on various components like price of crude oil, foreign exchange fluctuations, taxation policy, changes in government policy and many others. The main source of revenue for airlines depends upon collections from customers against sale of tickets. Hence profitability depends upon the price at which the airline can offer its tickets together with the proportion of seats that it is able to sell.

Airlines measure their income using Revenue per Available Seat Kilometre (RASK) and Cost per Available Seat Kilometre (CASK). RASK is airlines' total revenue divided by seat kilometres covered. Likewise, CASK is total cost upon seat kilometres. The airline can recover all its direct operating costs if RASK is equal to CASK, and it is said to break-even. The basic assumption is that if RASK is more than CASK by Re. 1, the airline is considered lucrative.

Expenses that are directly associated to flight operation e.g., air crew allowance, airplane fuel and oil, leasing or deprecation, airplane upkeep, insurance charges, ground management, navigational expenses, landing and parking costs and in-aircraft catering charges are referred to as direct operating cost. Hence direct operating cost does not include all the expenses incurred by the airline. Exhibit 1 provides an income summary of JA for the period 2006-2018. During this period the total income of the company was growing steadily.

The entry of multiple LCA's in the aviation sector, led to stiff competition. This led to the lowering of ticket price by JA. JA was forced to sell tickets which were even below the breakeven cost. Notwithstanding the increase in demand by passengers, the cost structures and soaring competitiveness made it extremely challenging for JA to stabilise its earnings. Hence although revenues were steadily increasing, its operating margins were continuously dropping.

Figure 4 (Biradar, 2019) provides the data of RASK & CASK for JA from first quarter 2017 till second quarter of 2019. As can be seen from the figure CASK was greater than RASK in 8 out of 10 quarters which implied that the airline had barely managed to break even in two quarters only.

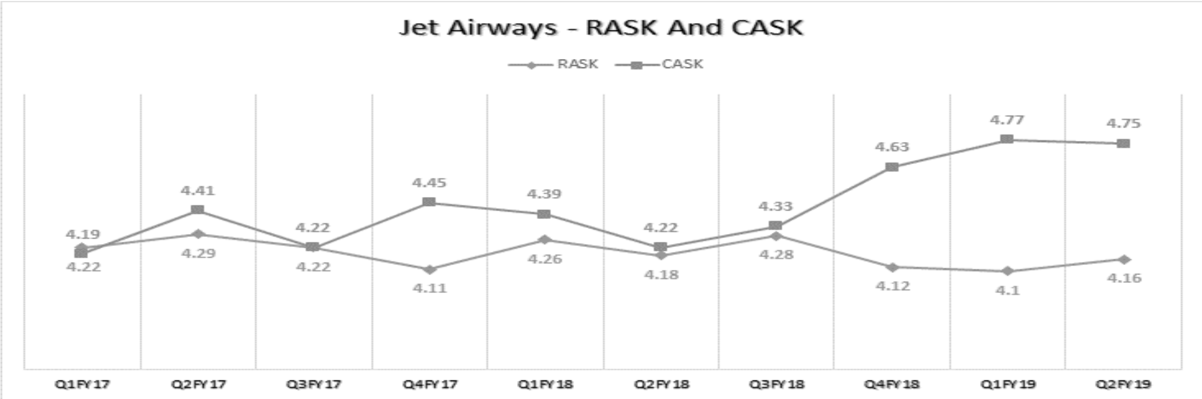


Figure 4: JA –Quarterly RASK & CASK during the period 2017 to 2019

Source: https://www.capitalmind.in/

JA constantly reported that the increase in fuel costs reduced its margins. As can be seen in Figure 5 (Biradar, 2019), their margins shrank in last three quarters: Q4FY18, Q1FY19, Q2FY19.

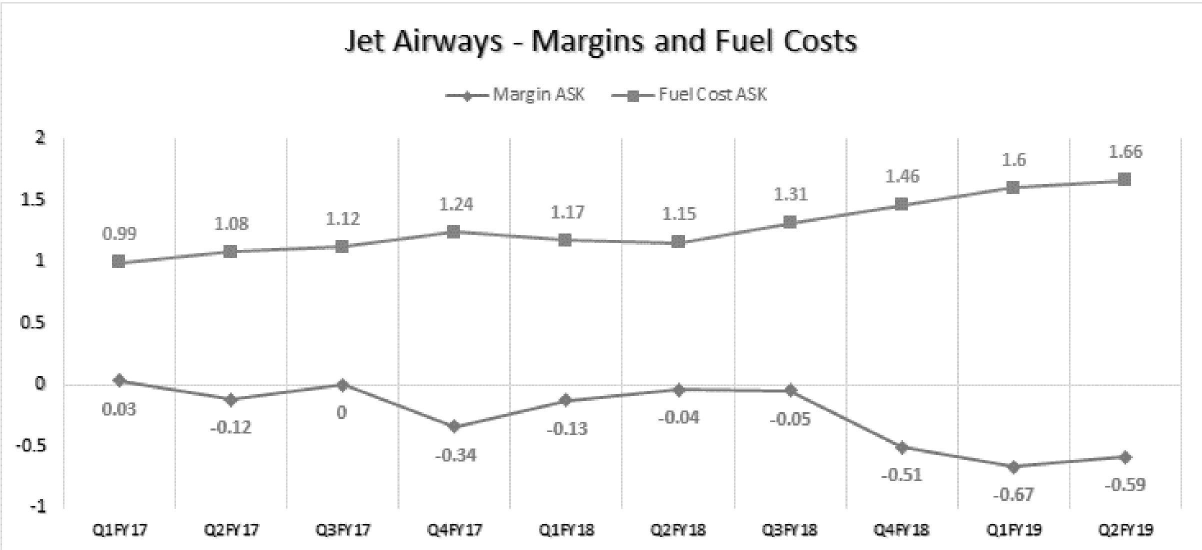


Figure 5: JA –Quarterly Margin and Fuel cost per ASK for the period 2017 to 2019

Source: https://www.capitalmind.in/

For half year ended FY19, JA's expenditures surpassed its income by 22 per cent. As shown in Figure 6, almost 50 per cent of the revenue was expended on aviation turbine fuel (ATF) (32 per cent), aircraft rental (9 per cent) and aircraft maintenance (8 per cent). JA also incurred losses on account of foreign exchange due to depreciating rupee in last three quarter of FY 2018-19.

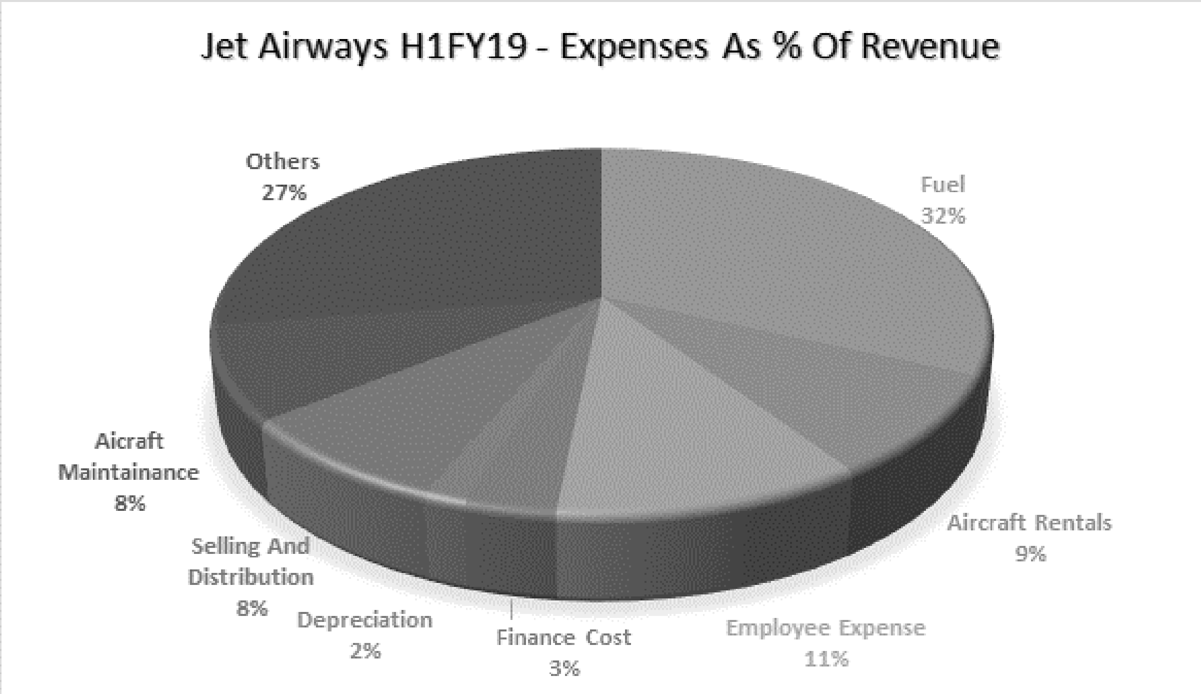


Figure 6: JA – Expenses as a per cent of revenue for the half-year ended 2019

Source: https://www.capitalmind.in/

Declining Profitability

The financial highlights as shown in Exhibit 1 and Figure 7 (Mehta, 2019) shows there was a decline in the profitability of JA. Exhibit 1 shows that the net profit margin fell since 2007 till date; except in the FY 2016 and 2017 as the airline operated at a loss.

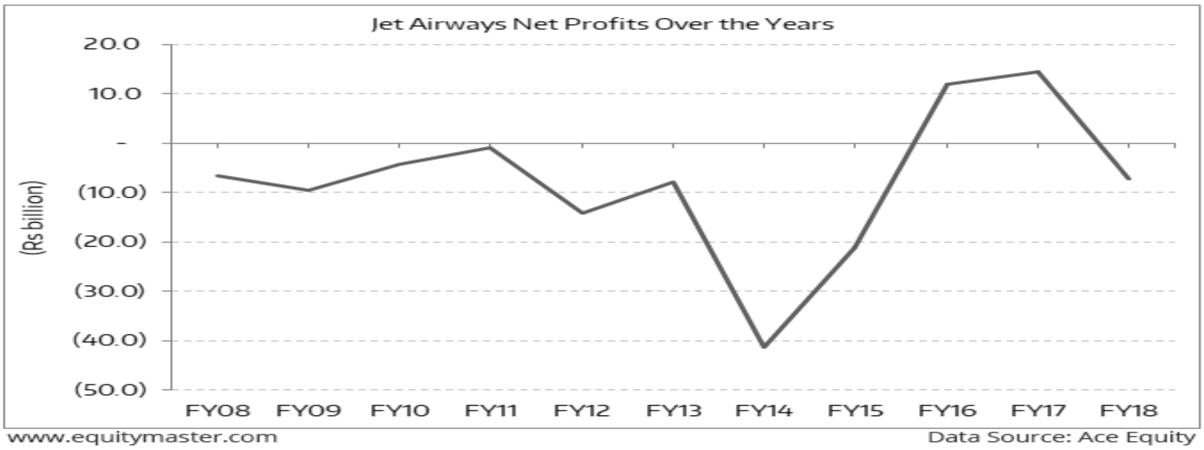


Figure 7: Profitability of JA from 2008 to 2018

Source: Ace Equity

Mr. Vinay Dube, CEO of JA stated that, **"**The rise in the price of Brent fuel, a depreciating rupee, and a resulting mismatch between high fuel prices and low fares have adversely impacted the Indian aviation industry, including JA", (Ghosh, 2018).

JA reported a loss of ₹13,230 million (US$ 192.91 million)[ii] and ₹12,970 million (US$ 178.77 million)[iii] for the quarter ended June 2018 and September 2018, respectively. The total loss for the half year ended September 2018 amounted to ₹26,200 million (US$ 361.13 million)[3]. This almost was equal to JA's market capitalisation of ₹27,500 million (US$ 394.04 million)[iv] in May 2019.

However, all the airlines operating in the Indian aviation sector were subject to increase in crude oil prices. JA was not the only Indian airline plagued by these economic conditions. Even SpiceJet, India's fourth-largest airline with 12.3 per cent market share (Fig. 8), posted a loss of ₹380 million (US$ 5.54 million)[2] for the first quarter of FY 2018-19. Market leader IndiGo was also affected. During April-June 2019 its profit dropped 97 per cent from a year ago to a mere ₹278 million (US$ 4.03 million)[v].

As per the company, the decline in profitability was majorly because of rise in crude oil prices and depreciation in the value of rupee. However, a forensic audit of JA commissioned by State Bank of India (Dave, 2019) revealed that funds were misappropriated, and fake invoices recorded in the books of accounts thus leading to substantial increase in fuel cost. They reported that invoices amounting to ₹150 million (US$ 2.17 million)[vi] each month were accounted for by JA without appropriate supporting documents. The company had also fraudulently billed 1400 million JP miles leading to a loss of ₹460 million (US$ 6.67 million)[6].

Declining Market Share

JA not only reported a drop in margins, but it also lost its market share as can be seen in Figure 8 (Mehta, 2019). Till 2012, JA was one of the leading airlines and controlled nearly 23 per cent of the market share in the Indian airline sector. However, it fell prey to the LCA pricing strategy. In LCA model for improving demand, the airline offers low-priced tickets thus enticing more customers. Eventually Jet lost its control in the market to competitors like SpiceJet and Indigo.

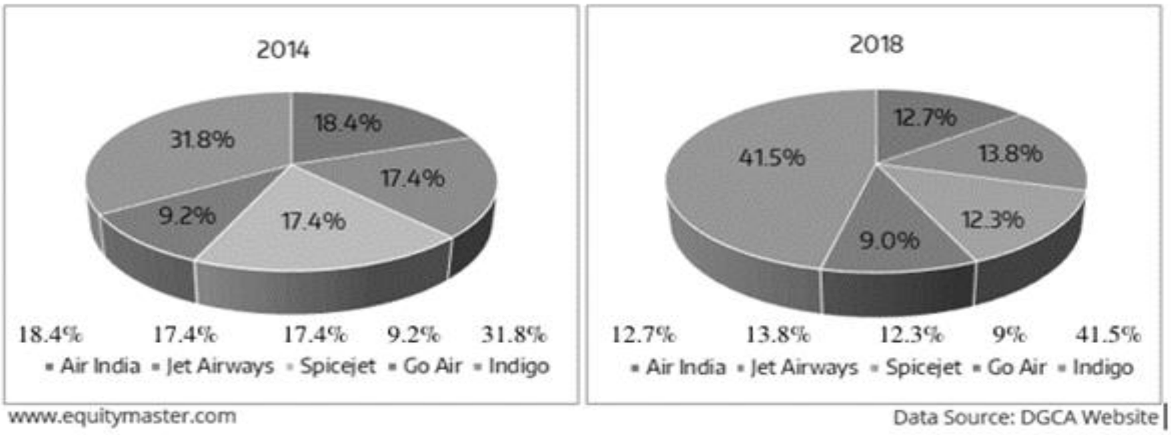


Figure 8: Market share of major airlines operators in 2014 and 2018

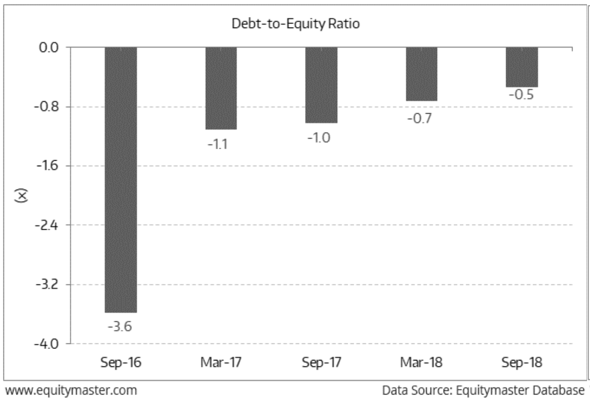
Source: www.equitymaster.com and DGCA website

Rising Debt

JA had a debt of more than ₹80,000 million (US$ 1,102.69 million)[2] as of September 2018 (Rebello, 2019). During January 2019, Jet had a negative net worth of ₹90,000 million (US$ 1,263.34 million)[vii]. JA had to repay 17,000 million (US$ 238.63 million)[7] of debt during the period February to April 2019 and ₹25,000 million (US$ 350.93 million)[7] for FY 2020. It borrowed from a group of 26 banks. As can be seen from Exhibit 1, Jet incurred a huge finance costs to the tune of ₹11,000 million (US$ 165.84 million)[viii], 8,510 million (US$ 131.06 million)[ix], and 8,900 million (US$ 136.84 million)[x] during the FY 2016, 2017 and 2018, respectively.

Figure 9 (Mehta, 2019) shows that to continuing operating, JA used fresh borrowings. This led to a liquidity crunch in the company. The figure also depicts that interest costs were the highest for the quarter ended December 2018. Exhibit 1 also shows that since 2012 the net worth of the company was negative since liabilities were exceeding its assets.

During, December 2018, Jet failed in disbursing interest and principal to a banking syndicate. ICRA downgraded JA debt to D from C, post the default. According to the latest RBI regulations (Prudential Framework for Resolution of Stressed Assets, 2019) banks needed to commence recovery proceedings within one day post default. JA debt was placed under SMA-0 category (default of 1-30 days) (Prudential Framework for Resolution of Stressed Assets, 2019).



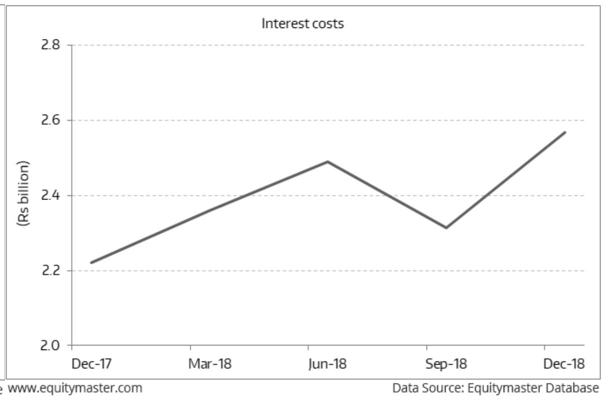


Figure 9: Debt-Equity Ratio and Interest coverage ratio of JA

Source: www.equitymaster.com

Shareholding pattern and Capital Structure

In 2013, Etihad Airways funded ₹20,600 million (US$ 379.16 million)[xi] (Biradar, 2019) for a 24 per cent stake in JA. Etihad Airways also arranged for soft loans and bought some of its assets.

JA was in a monetary crunch since August 2018, when it started postponing its employees' remuneration (Mehta, 2019). Several aircrafts of JA were already grounded for non-payment of dues and pilots threatened strike from April 1, 2019, as they did not receive salaries for the past three months. It had financial troubles and wanted to rearrange its debt as well as raise additional funds.

In February 2019, more than 97 per cent shareholders approved JA's proposal to allow creditors to convert debt into equity (Mehta, 2019). Under the RBI guidelines, on February 21, 2019, the restructuring proposal managed by banks and ratified by JA's board proposed to meet a funding gap of approximately ₹85,000 million (US$ 1,193.15 million)[7] (Mehta, 2019). The gap was mainly filled with a combination of fresh equity, reorganization of debt, sale and lease back (SLB) and refinancing of aircrafts. However, the State Bank of India (SBI)-led lenders set one of the conditions for infusing ₹15,000 million (US$ 210.56 million)[7] of emergency funds to revive JA which was the exit of Goyal, who owned 51 per cent in the airline formerly (Nagaraj, 2019).

Figure 10 thus shows that after the infusion of funds of ₹15,000 million (US$ 210.56 million)[7] by the SBI, the bank consortium was holding 50.5 per cent in JA, leaving 25.5 per cent to Goyal, 12 per cent each to Etihad Airways and the public (Nagaraj, 2019).

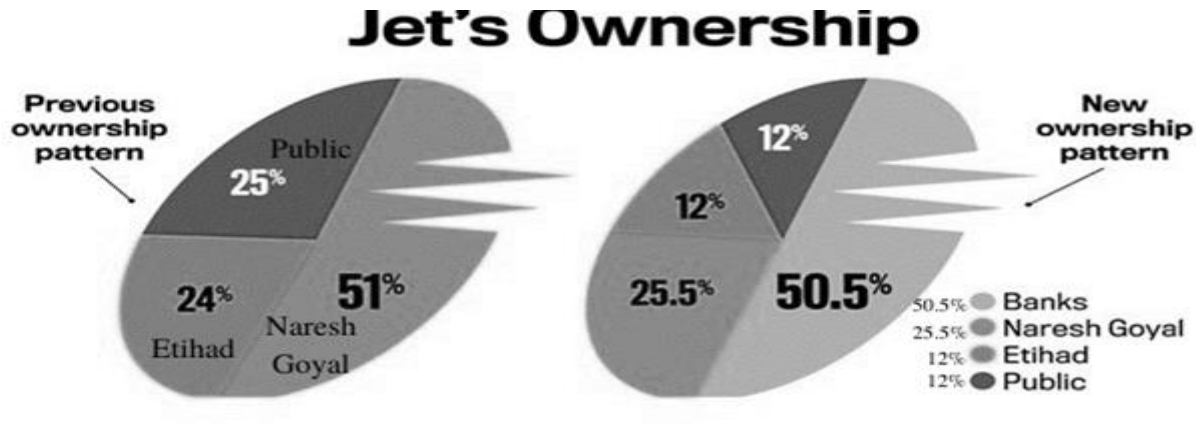


Figure 10: Change in ownership structure of JA after control taken over by SBI consortium in March 2019

Source: https://www.indiatoday.in/magazine/up-front/story/20190408-fixing-the-jet-lag-jet-airways-1488348-2019-03-29

Closure of Operations by JA and Insolvency proceedings

JA reported losses as on March 31, 2018. Soaring fuel rates also put a strain on its liquidity position and increased its overall borrowings to 55.4 times earnings before interest and tax as on March 31, 2018 (Smith, Antony, & Sanjai, 2018). The company was indebted to financial institutions and various creditors for fuel and lease payments. Shares of JA fell as much as 2.3 per cent on August 2018. SBI, HSBC Holdings Plc and Axis Bank Ltd. were amongst creditors of JA, that owed an amount to ₹94,300 million (US$ 1,449.88 million)[10] to its lenders. It had cash and equivalents of only ₹3,200 million (US$ 49.20 million)[10] at the end of March 2018. It had delayed payment to the employees since August 2018. On April 11, 2019, JA grounded its international operations. Finally, on April 17, 2019 all operations of JA were suspended.

The airline came to the verge of bankruptcy. The Enforcement Directorate (ED) examined Mr. Naresh Goyal, the founder. Due to the crisis, many jobs were lost. The company's closure directly influenced 20,000 employees and more than 60,000 persons implicitly (Singh, 2020). Some people were absorbed by SpiceJet and the other competitors. JA lost 70 per cent of its market capitalisation in December 2018 (Sarkar, 2018).

However, in October 2020, an investor syndicate, comprising of Kalrock Capital (a UK-established asset management company) along with Mr. Murari Lal Jalan (a UAE-based businessman), have officially taken over JA (Economic Times, 2020). Hence JA is once again preparing for a fresh take-off. Nevertheless, since both the new owners do not have a history of running and handling an airline and with the COVID19 pandemic still raging in India, it seems that it might be a turbulent flight for the air carrier. The role of the Indian Government is crucial in determining the direction of this crisis.

DISCUSSION & CASE QUESTIONS:

Q. 1. Jet Airways India Ltd. - once a leader in the aviation sector in India, what do you think went wrong? Could the decline have been arrested? How does the company's operating and financial leverage impact its profitability?

Q. 2. Do you think the change in ownership structure / capital structure has led to the financial crash landing of Jet Airways? Explain.

Q. 3. Evaluate the factors to be taken into consideration before investing in Aviation stocks?

EXHIBIT 1: Jet Airways (India) Ltd. - Executive Summary: Mar 2006 - Mar 2018

													Rs. Crores
	Mar-06	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**	**Mar-17**	**Mar-18**
Total income	6,124.75	7,469.70	9,644.30	12,798.86	10,772.25	13,318.23	15,762.06	18,232.52	18,226.34	21,253.32	22,793.27	23,080.47	23,958.37
Sales	5,666.55	7,104.09	8,892.15	11,388.32	9,720.89	12,322.23	14,772.56	16,792.20	17,030.77	19,180.23	21,968.81	21,233.43	23,248.84
Income from financial services	124.41	88.45	322.98	224.05	864.98	642.01	502.22	586.48	774.61	1,037.68	146.08	188.44	80.31
Total expenses	5,672.71	7,441.76	9,897.36	13,201.20	11,239.89	13,308.54	16,998.16	18,718.02	21,894.19	23,067.03	21,619.71	21,597.95	24,725.99
Raw materials, stores & spares	39.87	50.30	61.33	74.91	74.10					139.90	188.58		
Power, fuel & water charges	1,688.21	2,437.02	3,307.56	4,935.88	3,170.88	4,385.38	6,648.41	7,007.66	7,192.54	6,702.05	5,031.12	5,487.88	6,966.36
Compensation to employees	567.81	938.12	1,205.18	1,410.50	1,226.55	1,339.69	1,599.49	1,704.14	1,899.59	2,243.00	2,388.13	2,890.01	2,995.35
Finance Cost	255.64	240.15	492.75	933.60	993.01	1,119.71	1,203.11	1,405.79	2,064.75	2,095.00	1,100.07	851.09	889.92
Depreciation	406.41	414.10	777.80	899.81	961.96	910.62	939.88	926.57	875.75	762.50	995.09	670.90	620.57
Profits													
PBDITA	1,429.65	759.82	941.54	1,452.64	1,560.53	2,145.54	958.46	1,924.80	-491.83	1,440.42	3,405.40	3,007.96	811.15
Profit after tax (PAT)	452.04	27.94	-253.06	-402.34	-467.64	9.69	-1,236.10	-485.50	-3,667.85	-1,813.71	1,173.56	1,482.52	-767.62
Total liabilities	8,872.26	10,772.10	20,944.10	23,460.73	21,012.33	21,667.29	21,957.73	19,553.58	19,515.23	20,159.54	20,605.98	16,037.10	15,915.45
Shareholders' funds	2,143.86	2,104.81	1,851.75	1,294.65	827.01	836.70	-539.45	-980.50	-2,543.14	-4,405.65	-3,329.37	-6,475.87	-7,242.00
Paid up equity capital	86.33	86.33	86.33	86.33	86.33	86.33	86.33	86.33	113.60	113.60	113.60	113.60	113.60
Non-current liabilities (including long term provisions)	5,216.26	6,387.36	12,175.27	16,323.53	13,896.98	10,163.78	10,344.46	8,113.29	8,215.92	9,230.82	8,808.39	10,527.86	8,659.12
Long term borrowings	4,895.60	6,056.30	11,602.54	16,048.53	13,759.48	9,047.95	8,773.58	6,868.60	6,546.07	6,607.30	6,210.33	6,967.85	5,085.56
Current liabilities including short term provisions	1,217.26	1,955.03	3,910.56	3,460.94	3,691.44	8,899.17	10,432.41	11,782.82	13,527.08	15,019.00	14,811.59	11,985.11	14,498.33
Total assets	8,872.26	10,772.10	20,944.10	23,460.73	21,012.33	21,667.29	21,957.73	19,553.58	19,515.23	20,159.54	20,605.98	16,037.10	15,915.45
Non-current assets	4,975.38	7,360.94	16,782.80	18,590.11	16,474.52	18,479.96	18,588.76	15,458.93	15,465.15	14,671.28	14,323.60	10,420.95	8,552.91
Net fixed assets	2,122.48	3,297.49	14,084.17	16,261.94	14,429.92	13,615.81	13,782.45	10,777.04	9,634.96	9,231.21	8,804.65	4,895.43	2,910.76
Long term investments	187.23	68.93	1,475.35	1,745.00	1,745.00	1,645.09	1,645.96	1,646.01	1,641.21	696.17	696.19	696.67	1,393.97
Current assets (including short term investments & advances)	3,875.36	3,364.47	3,922.44	4,350.70	3,782.20	3,187.33	3,368.97	4,094.65	4,050.08	5,488.26	6,282.38	5,616.15	7,362.54

Source: CMIE Prowess Database and Annual Reports of the Company

REFERENCES:

- Ameya. (2019, February 2). *India Market Outlook 2019*. Retrieved from Network Thoughts: https://networkthoughts.com/2019/02/02/india-market-outlook-2019/
- *Aviation in India*. (n.d.). Retrieved from Wikipedia: https://en.wikipedia.org/wiki/Aviation _in_India
- Biradar, S. (2019, January 23). *Jet Airways – What It Would Take To Keep Flying.* Retrieved from https://www.capitalmind.in/: https://www.capitalmind.in/2019/01/jet-airways-what-it-would-take-to-keep-flying/
- *Business Standard*. Jet Airways (India) Ltd. (Jetairways) - Company History Retrieved from Business-standard.com: https://www.business-standard.com/company/jet-airways-5586/information/company-history

- Dave, S. S. (2019, July 15). *Jet Airways audit shows diversion of funds, fraudulent billing.* Retrieved from https://economictimes.indiatimes.com/industry/transportation/airlines-/-aviation/jet-airways-audit-shows-diversion-of-funds-fraudulent-billing/articleshow/70220878.cms?from=mdr
- *DGCA Rules and Regulations*. (2018, October 22). Retrieved from https://web.archive.org/ web/20181022010659/http://www.dgca.nic.in/dgca/visi-ind.htm
- *Economic Times*. (2020, October 08). *Jet Airways shares hit upper circuit. Here's why.* Retrieved from https://economictimes.indiatimes.com/markets/stocks/news/jet-airways-shares-hit-upper-circuit-heres-why/articleshow/78548312.cms
- Ghosh, K. (2018, August 28). *After struggling for months, Jet Airways finally has a turnaround plan.* Retrieved from https://qz.com/india/1371139/jet-airways-posts-another-loss-in-first-quarter-plans-turnaround/
- Ghosh, K. (2018, October 09). *Crisis-hit Jet Airways is still dealing with the baggage from the Air Sahara deal.* Retrieved from https://scroll.in/: https://scroll.in/article/897458/crisis-hit-jet-airways-is-still-dealing-with-the-baggage-from-the-air-sahara-deal
- *Hindu Business Line*. (2018, March 12). *Air India's 'first right' to fly overseas routes blocks private airlines' plans.* Retrieved from https://www.thehindubusinessline.com/ economy/logistics/air-indias-first-right-to-fly-overseas-routes-blocks-private-airlines-plans/article20385247.
- *India Brand Equity Foundation Report.* (2019). *Indian Aviation Industry Report.* https://www.ibef.org/industry/indian-aviation.aspx.
- *India Brand Equity Foundation Report.* (2017). *India Brand Equity Foundation Report.* https://www.ibef.org/industry/indian-aviation.aspx.
- *Indian Aviation Industry Report.* (2017, June). Retrieved from India Brand Equity Foundation ibef.org: https://www.ibef.org/archives/detail/b3ZlcnZpZXcmMzcxNTAmNDk5
- *Indian Mirror.* (n.d.). Retrieved from Indian Aviation Industry: https://www.indianmirror.com/indian-industries/aviation.html.
- Mehra, P. (2011). Communicating in a Crisis and the Role of a Business Leader: The Case of Jet Airways. *Journal of Case Research, Volume II, Issue 02*, 133-147.
- Mehta, R. (2019, March 5). *The Jet Airways Crisis in 6 Charts.* Retrieved from https://www.equitymaster.com/detail.asp?date=03/05/2019&story=7&title=The-Jet-Airways-Crisis-in-6-Charts
- Nagaraj, R. (2019, April 8). *Fixing the Jet Lag | Jet Airways.* Retrieved from https://www.indiatoday.in/magazine/up-front/story/20190408-fixing-the-jet-lag-jet-airways-1488348-2019-03-29
- *Prudential Framework for Resolution of Stressed Assets.* (2019 , June 7). Retrieved from https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11580&Mode=0
- Rebello, A. C. (2019, January 02). *Jet Airways defaults on loan repayments to banks.* Retrieved from https://economictimes.indiatimes.com/industry/transportation/airlines-/-aviation/jet-airways-%20defaults-on-loan-repayments-to-banks/articleshow/67344729.cms?from=mdrhttps://economictimes.indiatimes.com/industry/transportation/airlines-/-aviation/jet-airw.
- Sarkar, S. (2018, November 13). *Q2 Results: Jet Airways Reports Loss For Third Straight Quarter.* Retrieved from https://www.bloombergquint.com/quarterly-earnings/q2-results-jet-airways-reports-loss-for-third-straight-quarter.
- Satpathy, Ipseeta, Patnaik, B. Chandra, and Kumar, Sharad. (2017). Indian aviation industry: An overview. *International Journal of Academic Research and Development ISSN: 2455-4197 Impact Factor: RJIF 5.22 www.academicsjournal.com, Volume 2; Issue 6*, 802-805.
- Sekhar, S. V. (2016). *Study On Service Quality and Passenger Satisfaction With Airlines In India.* Retrieved from shodhganga.inflibnet.ac.in: http://hdl.handle.net/10603/197942
- Shah, K. (2020, January 5). *India set to trigger revival of global aviation sector.* Retrieved from AviationIndia.net: https://www.aviationindia.net/2020/01/india-set-to-trigger-revival-of-global.html
- Singh, L. (2020, August 18). *5 Reasons for the Shutdown of Jet Airways, India's Beloved Airline [Jet Airways Case Study].* Retrieved from https://startuptalky.com/case-study-jet-airways-crises/
- Sinha, S. (2009, September 10). *Jet crisis: From takeoff to turbulence.* Retrieved from https://timesofindia.indiatimes.com/india/Jet-crisis-From-takeoff-to-turbulence/articleshow/4992828.cms
- Smith, George Alexander, Antony, Anto, and Sanjai, P. R.. (2018, August 14). *Jet Airways lenders are wary of extending new loans.* Retrieved from Bloomberg, https://www.livemint.com/Companies/ypz8wzc0po55vSs35NSLSL/Jet-Airways-lenders-are-wary-of-extending-new-loans.html

---

[i] Dollar rate is ₹42.86 as on April 12, 2007. All rates taken from ACE Knowledge portal https://www.acekp.in
[ii] Dollar rate is ₹68.58 as on June 30, 2018.
[iii] Dollar rate is ₹72.55 as on September 30, 2018.

[iv] Dollar rate is ₹69.79 as on May 31, 2019.
[v] Dollar rate is ₹68.92 as on June 30, 2019.
[vi] Dollar rate is ₹69 as on March 31, 2019.
[vii] Dollar rate is ₹71.24 as on January 31, 2019.
[viii] Dollar rate is ₹66.33 as on March 31, 2016.
[ix] Dollar rate is ₹64.93 as on March 31, 2017.
[x] Dollar rate is ₹65.04 as on March 31, 2018.
[xi] Dollar rate is ₹54.33 as on April 1, 2013.