

# Flight to glory

**V**. Thulasidas, chairman and managing director of Air India, is doing a lot of globetrotting these days. If it's Tuesday, it's Shanghai; if it's Wednesday, it must be Rome (or Paris at least). Thulasidas needs to be on the move. India's national carrier has ordered 68 aircraft — 23 Boeing 777s, 27 Boeing 787s and 18 Boeing 737-800s (the last for subsidiary Air India Express). Air India's 50 planes will cost around \$6.8 billion. Orders worth \$2 billion have also been placed with GE for jet engines. In a smaller deal, the airline has signed up with Italian company Avio Interiors for state-of-the-art seats.

Currently, Air India has a fleet less than half its proposed acquisitions. It has been making do with leased aircraft. Says Thulasidas: "We grew by leasing. We had a fleet of 25 earlier. Now we have 42."

The new aircraft means newer destinations and more flights to places already on the Air India map. There will be non-stop flights to popular destinations. And Thulasidas has to work out how best to sweat its assets. "Air India's days of glory are ahead," says an aviation analyst.

The backroom boys have begun their planning. Everything in the kitty is being thrown in to help Air India get to its destination. The national carrier has other things going for it. One of its biggest treasures is the Maharaja - the mascot, which will turn 60 this year. "The Maharaja has a special identity reflecting the culture and splendour of India and its history," says Jagdeep Kapoor, managing director of Samsika Marketing Consultancy. He explains that this is probably the only Indian brand that has been around in the international arena for so long. "For 60 years, it has attracted people with its promise and performance," he adds.

Sixty is the sort of age when people hang up their boots. The Maharaja, however, is not about to retire. Nor is Thulasidas. He had taken over as chairman on 22 December 2003 and was due to retire soon. He has been given a six-month extension to put the grand plans for Air India in place.

It's not just the fleet expansion, though that's important enough. On the anvil is a merger with the country's mainly domestic national carrier Indian (formerly Indian Airlines). This will create a much bigger entity, among the five largest airlines in Asia. And, though nobody is talking about it as yet, the ambition is to rub shoulders with the biggest in the world. (Indian is also expanding; it has placed a \$2.2 billion order for 43 aircraft with the Anglo-French combine — Airbus Industrie.)

**T**he external environment is ripe for this expansion. Today, the Indian economy is going great guns. In the first quarter of calendar 2006, India's GDP grew by 9.3 per cent, a good clip above the 8.6 per cent recorded in the corresponding period the previous year. It was also much higher than expectations.

The world has bought the growth story. Everybody is making a beeline for India. MNCs are coming to set up manufacturing units. Others are looking for the best deals for outsourcing back-office operations. Non-resident Indians are returning to check out the new land of opportunity. Expats are pouring in to take up jobs here; India is where all the action is. And even tourists are heading for the country in ever-increasing numbers. Air India wants a piece of this action.

Just a bigger fleet will not do the trick, of course. India has an Open Skies policy today. There is competition not only from foreign carriers but also from domestic aspirants such as Jet Airways. Thulasidas is unfazed. Once the fleet is in place, the combined entity can take on any competition, he feels.

Part of his plan is to improve services in a big way. "It will be a totally new experience," says Jitendra Bhargava, Air India's director communications and PR. A new advertising campaign will be unleashed. Everyone agrees that the Maharaja has done sterling work. But he needs support in this era of hardsell. The good part is that the carrier today has the financial muscle to embark on a high-decibel campaign.

With a major aircraft acquisition plan in place, a new Air India is waiting to take off

**WORKING OVERTIME:**  
Chairman and managing director V. Thulasidas



PALSHRAMAN BHAIWICK



PALASHRANJAN BHRAUMICK

**SEA CHANGES AHEAD:**  
Director Jitendra Bhargava

Air India has had its highs and lows. But it turned the corner in 2001. That year, the company made a small profit of \$3.36 million. The numbers have been rising since then. Most importantly, the airline has not slipped back into the red in any year. Last year (2004-05), Air India even declared a 10 per cent dividend. In terms of turnover, there has been a steady upward increase. In 2001, the figure was \$1.098 billion. This increased to \$1.961 billion in 2005-06 (provisional). Bhargava points out that turnover will obviously jump when the merger takes place. The bigger plus is that costs will come down. For one, it will be possible to eliminate some duplicated functions. Secondly, bigger size means better bargaining power. It will facilitate getting higher discounts out of its suppliers.

Operations can be rationalised too. Air India and Indian have some common routes at present, both domestic and international. As they are independent organisations (though wholly government-owned), competition is inevitable, resulting in lower margins. Flights sometimes depart at the same time, leading to empty seats. The merger will mean a rationalisation of schedules.

Minister of State for Civil Aviation Praful Patel is one of the foremost advocates of the merger. "The merger is very much on and will happen this financial year," says he. What has delayed things a bit is the decision to take the two companies — Air India and Indian — public. Consultants and merchant bankers have



PALASHRANJAN BHRAUMICK

**THE SIGNING CEREMONY FOR 68 AIRCRAFT:** President & CEO of Boeing Commercial Airplanes Alan Mulally, Union Minister of State for Civil Aviation Praful Patel and V. Thulasidas

already been roped in for the Air India initial public offer (IPO). However, there is some rethinking on the roadmap. One obvious option is to merge the two first and go in for the IPO only after that. But it is not clear as yet what will give the best valuations.

Also, if Air India and Indian go public first, they will have independent shareholders. It will be necessary to take their approval before any merger. And, though the government is planning to divest only around 20 per cent making the approval a formality, the procedure will delay matters.

Thulasidas is also pushing for the merger. "It will not be just one plus one. It will be far more than that due to synergies in operations," he says.

**F**leet acquisition means expansion, and that brings with it the need for mindset changes. A merger has its own set of issues. And if you add an IPO to that, it's really stirring the pot. Bhargava, however, says that the airline has been preparing for the fleet expansion for several years now. And the merger, after the teething troubles, if any, can only prove beneficial.

In the long term, it is the IPO that is likely to have more salutary effects. It is a feature of public sector undertakings across the world that they tend to slip into lethargy, particularly when they face limited competition. Air India has been in danger of that too. In recent years, competition has been unleashed. But going public and

being subject to stricter corporate governance norms bring greater accountability and the need for adherence to tougher performance parameters.

Air India has roped in several consultants to aid its transformation. The financial advisors - for the merger and the IPO - are one side of the coin. There are also others who will come in to help in brand identity and marketing. "Keeping in view the intense competition, both from Indian carriers who are now allowed to fly abroad and from international airlines operating to India, Air India has appointed Alia Group as brand consultants," says an Air India spokesperson. "Their scope of work includes almost every aspect of airline functioning, particularly areas that have a customer interface. This exercise will help Air India in enhancing its brand identity in India and abroad."

The Alia Group, according to founder Sanjeev Malhotra, works towards achieving simplicity in grand expression. The company has done work for Hindustan Lever, Amul, Dabur and ITC, amongst others.

Air India has had several high fliers at the helm in the past. There was Yogi Deveshwar, for instance, who is now chairman of ITC. In its pre-nationalisation days, it had J.R.D. Tata, who actually set up the airline. Compared to them, Thulasidas is low profile and not particularly well known to the man on the street. But he may yet leave the biggest mark on the future of the national carrier. 