

Indigo - In the Times of Pandemic

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Abstract

Over the years now, the Indian aviation has seen a lot of difficulties, and recently, the players in aviation started working towards competing with global players in the industry in terms of quality of service and making the balance sheet look stronger. All this enthusiasm boiled down due to the COVID-19 pandemic, which impacted all the economies across the globe. This pandemic has thrown a lot of challenges like whopping decrease in the revenues but not the costs to the same extent, uncertain changes in the regulations by the state governments on imposing quarantine for the domestic passengers, which resulted in impacting the survival of some of the weak players. IndiGo suffered its biggest losses since it went public in the year 2015, and these losses can be attributed to the pandemic. However, there are certain measures that can be put in place sooner rather than later. These are to do with attracting other forms of services like cargo and access to competent and quick investors to pump in capital. These twin factors must be the subject of urgent policy measures for IndiGo to be ahead of the pack.

Keywords : Indigo, pandemic, COVID-19, strategies, revenue

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Aviation in India is one of the toughest industries, with the high costs and price wars among competitors. The situation worsened after the outbreak of COVID-19. The biggest drivers of losses during and post COVID-19 in the aviation sector are evaporation of passenger demand, closure of international fleets, and lockdown imposed in most of the nations to contain the spread of COVID-19. As per industry watchers, an expected fall in the traffic levels for 2020 was about 50% of the traffic levels observed in 2019. The immediate effect of this has been on revenues of the airlines which are expected to fall to the extent of 50%. In contrast to this, the costs are not decreasing to the same levels, and are expected to fall by only about 35%. The biggest relief to the airlines has come in the form of decrease in the fuel prices, where the average jet fuel price for 2020 was around \$ 36.8/barrel in comparison to \$ 77/bbl in 2019. The airlines cannot take the leverage of this slash in fuel prices as there is a restriction on travelling for a good amount of time.

Indian and Global Aviation Industry

Aviation is one of the fastest growing industries in India and expected to become the third largest domestic

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aviation market in the world by 2024. The Government of India has permitted 100% FDI under the new initiative of automatic route in scheduled air transport service, domestic scheduled passenger airline, and regional airport service. But prior government approval is obligatory for FDI over and above 49%. Conferring to the data released by Department for Promotion of Industry and Internal Trade (DPIIT), India witnessed enormous FDI inflows to the total of \$ 2.75 billion between April 2000 and March 2020 in the air transport sector including air freight (India Brand Equity Foundation, 2021).

The expenditure of Indian travelers is expected to grow up to \$ 136 billion by 2021 (IBEF, 2021). With the highly collaborative work between industry stakeholders and policy makers, the right policies are expected to be in place. The year 2020 witnessed biggest ever losses in the global aviation history mounting to \$80 billion and the year 2021 may witness losses of \$16 billion (Kundu, 2020). This loss is much more severe and exorbitant in comparison to joint jolts received by airlines in 2008 because of the global financial crisis and spike in the oil prices.

The share of the world GDP (gross domestic product) spent on air transport is expected to be halved in 2020, totaling \$434 billion amidst widespread lockdowns across the globe (Kundu, 2020). This pandemic may throw some benefits to the travelers as the airlines plan for lower travel fares in a bid to boost demand. The average return fare could take a hit and approximately there could be a record 68% decline in the fare in the estimated average of \$254 in 2020 when compared to 1998 prices, after adjusting for inflation.

The story is not different in India and to Indian carriers. In its statement released in May 2020, International Air Transport Association (IATA) said that Indian airlines will lose \$ 11 billion in revenues and 47% of air traffic, while there could be 3 million job losses. These challenges forced airlines to run out of money and because of the precarious financial positions of airlines, it became almost impossible to refund the money owed to passengers and airlines offered 'credit shells' (International Air Transport Association, 2020 ; Kumar et al., 2019). After the interference of the Apex court, which asked the government to look into the issue of funds, the government is also with the view that the airlines cannot be forced to pay these funds. There is a need to devise a solution which is acceptable to both airlines and passengers.

The highest occupancy rate was posted by Spice Jet with 70% and number of passengers travelled by all the domestic airlines till July 2020 was 82.3% lower than the corresponding period last year, which was a total of 21.07 lakhs. Inconsistent and confusing state wise quarantine resulted in more concerns for the travelers as the governments of various states have changed quarantine rules based on the number of cases registered. Metro traffic took a huge plunge compared to non metro traffic as metros witnessed the largest number of COVID-19 cases registered and were considered as more risky ("Travel curbs by some states," 2020).

Background

In year 2020, Indigo completed 14 years since it was incorporated in 2006 by Rahul Bhatia and Rakesh Gangwal as a private company in India. The operations commenced on August 4, 2006 with a first flight taking off from New Delhi to Imphal.

In January 2020, IndiGo became the first Indian carrier to have an aircraft fleet size of 250 planes and became the first carrier to operate 1500 flights per day (Chowdhury, 2020). IndiGo, with 97.6% on-time performance in the month of July 2020, stood at second best among Indian carriers. In the same month, IndiGo achieved one of the rare feats by carrying 12.72 lakh domestic passengers, a whopping 60.4% of the total domestic market (Vashisht, 2020).

IndiGo has taken a very critical role in the Government of India's initiative "Vande Bharat Mission" by efficaciously operating nearly 500 international flights in the period of 45 days, including passenger charters and repatriation flights ("IndiGo operates passenger charter," 2020 ; Kotoky, 2020).

Table 1. Important Figures for the Last Five Quarters - IndiGo (Amt in INR Cr)

Particulars	Jun'20	Mar'20	Dec'19	Sep'19	Jun'19
Total Income	1143.49	8634.91	10330.34	8539.92	9787.07
Total Expenses	2386.76	8434.32	8261.77	8125.08	6896.67
Reported PAT	-2849.39	-873.47	490.45	-1065.61	1200.47

IndiGo is the first airline to start “6E double seat” which offers a passenger to book an additional seat at the cost of 25% of the initial booking value to ensure additional safety. This initiative was the result of the survey conducted by the airlines about the factors of concern for the passengers, in which 62% of the passengers were concerned about the lack of social distancing by other passengers (Kundu, 2020).

IndiGo – Is the Future Up in the Air ?

Despite being a market leader in the Indian aviation industry, IndiGO reported net losses consecutively for the last two quarters Mar'20 and June'20 to the extent of INR 873.47 crores and INR 2849.39 crores, respectively which is the biggest ever since it went public in November 2015 (see Table 1). Earlier to this, the company posted a net loss of INR 1065.61 crores in the second quarter of the financial year 2018–19, primarily due to its failure to keep a check on costs. The airline's new finance chief, Aditya Pandey, said in a post earnings conference call with analysts that IndiGo had leased more than 50 of old Airbus A320 CEO Planes which were more expensive to maintain. Also, a chunk of the costs was in dollar terms, which led to the airline recording a mark-to-market forex loss as the rupee weakened against the greenback. A major portion of the increase in the costs was attributed to employee training and salary increases. However, the quarterly performance (Q3FY20) improved upon the net loss reported by the carrier in the earlier quarter, beating the analysts' estimates (Vashist, 2020).

Cash is king and IndiGo has plenty of it (Kundu, 2020). At the end of FY 2019 – 20, the availability of net cash was INR 6,500 crore which will come handy and reassure the performance in testing times. IndiGo reported a net loss of INR 873 crore for the Q4FY20 (Table 1). Surprisingly, the shares of IndiGo rose up to 10% on NSE after the results were announced. The Q1FY21 is the quarter in which IndiGo has reported huge losses to the extent of INR 2,849 crores (see Appendix).

The company said that closure of scheduled operations till May 24, 2020 and lower capacity deployment thereafter on account of COVID-19 significantly impacted the quarterly results (Vashist, 2020). This loss is in contrast to the INR 1,200 crore profit clocked in the same quarter of the previous financial year. Revenue from operations came in at INR 767 crore, which is lowest in its life after becoming public. There was a decline in the revenue by 92% Y-o-Y and 91% decline in comparison to Q4FY20 (Mishra, 2020). These numbers disappointed the streets as this loss is much beyond the expected factored in losses to INR 797 crore by the analysts. The other income is stable compared to net sales turnover, and it slightly marked better than the Q4FY20.

With its strong work force of 28,000 of which 40% are pilots and crew and the largest carrier by domestic market share, IndiGo initiated a much painful process of handing over pink slips to 10% of the work force (pilots were excluded from layoff) due to decrease in the demand. This situation dried the possibilities of investments by third parties and the infusion of capital to overcome the problem of cash crunch barely in the hands of promoters. To stay afloat, pay cuts have become inevitable and IndiGo decided to go for series of pay cuts to all the employees including CEO Ronojoy Dutta, who had to forego 35% of his monthly salary (Chowdhury, 2020).

Conclusion

The outbreak of COVID-19 has devastated the economies across the globe, and many industries suffered incalculable losses, and aviation is one of the industries, which comes in front lines as there are restrictions imposed by the governments in cross border and domestic travel. Though it is not unique to report huge losses at IndiGo, the issue to be focused at is increase in the costs. India's biggest airline by market share has taken a host of measures to contain costs by replacing the older CEO aircrafts with more efficient NEOs, deferring certain capital expenditure, putting on hold discretionary expenditure, and also initiated the most painful process of laying off employees and offering leave without pay to its employees. As the Government of India announced relaxations in the lockdown restrictions in many areas, the situation of IndiGo is expected to improve. Added to this, the positive news about the success of the vaccine for COVID-19 may help bring back normalcy to the economies, which will help regaining the demand for air traffic.

Teaching Notes

Teaching Objectives

Over the years now, the Indian aviation industry has seen a lot of difficulties, and recently, the players in aviation have started working towards competing with global players in the industry in terms of quality of service and making the balance sheet look stronger. All these enthusiasms boiled down due to the COVID-19 pandemic, which impacted all the economies across the globe. This pandemic has thrown a lot of challenges like whopping decrease in the revenues but not the costs to the same extent, uncertain changes in the regulations by the state governments on imposing quarantine for the domestic passengers, which impacted the existence of some of the weak players. IndiGo suffered its biggest losses since it went public in the year 2015, and these losses can be attributed to the pandemic. However, there are certain measures that can be put in place sooner rather than later. These are to do with attracting other forms of services like cargo and access to competent and quick investors to pump in capital. These twin factors must be the subject of urgent policy measures for IndiGo to be ahead of the pack. At the end of the case exercise, participants should have an understanding of the following issues :

- ↪ Demonstrate the impact of a pandemic like COVID-19 on the aviation industry.
- ↪ Illustrate the ways in which various costs can be minimized.
- ↪ How to increase revenues through other alternatives like providing cargo services.
- ↪ Variations in the share price fluctuations after announcing the results.
- ↪ Innovate the ways in which the occupancy rate can be increased.

Potential Audience and Relevant Programmes

Graduate and post graduate students and anyone interested in the airline industry are the potential audience. The relevant programmes are : graduate and graduate diploma in airport management, ground staff & cabin crew training, aviation hospitality, airfare & ticketing management.

- ↪ Number of Teaching Sessions Needed : Four lectures of 50 minutes each.

Authors' Analysis of Each Question Raised

(1) What are the Steps to be taken to Utilize the 'Credit Shells' Offered to Passengers ?

Credit shells are credit notes created by the airlines against the cancellations of Passenger Name Record (PNR) due to the COVID-19 outbreak. The validity of the credit shell is one year from the date of creation and is non-transferable. Credit shell is like a wallet which is used to keep the refund amount to be made to the passengers, and the same can be used for future bookings. The precarious financial position forced airlines to offer this facility, but there was outrage from the passengers and the Apex court also interfered to solve the problem. The strategy to be followed by the airlines to redeem the credit shells includes, give an option to the passengers either to keep money in the credit shell or refund instead of mandatory credit shell and proportionally redeem the credit shells to the customers as the cash inflows start once the operations commence.

(2) How can the Airlines Take Advantage of the Cargo Segment of the Air Traffic ?

It is as clear as broad day light that going forward, passenger airlines should focus on cargo services to keep the passenger prices competent and attract more number of passengers. All of a sudden, the revenue from cargo services has changed from a contribution to overheads; it has become the major source of revenue. Unlike the other ancillary revenues for airlines, the revenue from the cargo services would not take much toll as it is completely independent of passenger traffic. Though the cargo volumes declined due to the current economic crisis evidenced because of the pandemic, the drop is not to the extent of drop in the passenger demand. There was a decline of nearly 83% of passenger traffic ; whereas, the decline in the cargo services is only 47% with respect to previous year. In turn, freight rates have sky rocketed during the same period. Revenue from cargo services is going to make a difference in the profit and loss statements of the airlines in the near future.

(3) Discuss the Immediate Impact of Pay Cuts on the Morale of Employees and Other Alternatives to Cut the Expenditure

Most of the companies across industries rely on pay cuts in turbulent times. These pay cuts impact the morale of the employees. To overcome the problem of decreased morale which may impact the performance, companies should keep the communication open and companies should focus on team building and create positive energy at workplaces. The following strategies can also be followed to optimize costs, though some of the strategies have already been followed, and companies need to explore the opportunities available.

- (i)** Entering into Fuel Hedging Strategies : Conduct hedging strategies to buy fuel for future uses as the expenditure on fuel takes a major chunk of the revenue.
- (ii)** Optimize the Routes : As the operations took a hit, there was a need to revise the routes.
- (iii)** Reduce the dead weight of an airliner.
- (iv)** Be Smart when it Comes to Insurance : Provide extra safety measures to reduce the cost of insurance.
- (v)** Negotiate the fee to be paid at airports.
- (vi)** Optimize the costs incurred on in-flight food services, especially post pandemic.

(4) What Strategies can be Implemented by IndiGo Airlines to Improve the Occupancy Rate?

Occupancy rate has become one of the major concerns for the airlines as there was a whopping decline due to the pandemic and confusing policies by various state governments regarding quarantine of the passengers. It is to be understood that price sensitivity is different for different segments of customers (for example, a person with a family size of four perceives the price in a different way than an executive who plans to travel all of a sudden). Build algorithms which are dynamic in analyzing the market by taking a host of factors (like willingness to buy a ticket, competition, and destination) into consideration. IndiGo can also enter into MoUs with corporates to offer a certain number of seats between two cities where business is maximum for the corporates to keep the operations and occupancy rate afloat.

(5) Identify the Reasons for the Increase in the Share Price of IndiGo after Posting a Net Loss to the Extent of INR 873 crore in Q4FY20.

There are multiple reasons for a takeoff in the share price of IndiGo. The most important factors are :

- (i)** Losses are lower than expected, and majority of the losses are because of fluctuations in forex.
- (ii)** Cash is the King : Due to strong position in terms of the cash reserves which can help the airlines to sail against the wind in the testing times. At the end of FY20, IndiGo is strong in terms of cash availability to the extent of INR 6,500 crore which can help the company to flourish when the normalcy returns.
- (iii)** Lower crude oil prices (though the contribution of this factor is less because of lower levels of scale up of operations).
- (iv)** The airlines may also look at various measures to overcome the turmoil, which includes curtailing the employee costs, no dividend payments, and taking deliveries of NEO aircrafts.

Authors' Contribution

The case prepared by Dr. M. Narender is by far the most comprehensive case written on IndiGo in the time of the ongoing COVID - 19 pandemic with all derivatives and abbreviations. Dr. A. Arun Kumar contributed to the preparation of the case study methods and formatting and contributed to the critical revision and final approval of the version to be published.

Conflict of Interest

The authors certify that they have no affiliations with or involvement in any organization or entity with any financial interest, or non-financial interest in the subject matter, or materials discussed in this case study.

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Disclaimer

This case is prepared by the authors for the sole purpose of aiding classroom discussion. It is not intended to serve

as endorsement/sources of data/illustrations of effective or ineffective management. The decision results may or may not be envisaged by the stakeholders of the organization.

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Appendix. Losses Incurred by IndiGo

	Jun'20	Mar'20	Dec'19	Sep'19	Jun'19
INCOME					
Net Sales Turnover	766.74	8299.06	9931.69	8105.19	9420.06
Other Income	376.75	335.86	398.65	434.73	367.01
Total Income	1143.49	8634.91	10330.34	8539.92	9787.07
EXPENSES					
Stock Adjustments	3.45	1.94	-2.28	-0.65	-2.06
Raw Material Consumed	0	0	0	0	0
Power and Fuel	127.49	2860.36	3341.94	3115.43	3136.06
Employee Expenses	876.49	1050.89	1164.54	1131.1	1048.84
Administration and Selling Expenses	0	0	0	0	0
Research and Development Expenses	0	0	0	0	0
Expenses Capitalised	0	0	0	0	0
Other Expenses	1379.33	4521.14	3757.58	3879.2	2713.84
Provisions Made	0	0	0	0	0
TOTAL EXPENSES	2386.76	8434.32	8261.77	8125.08	6896.67
Operating Profit	-1620.02	-135.27	1669.91	-19.88	2523.39
EBITDA	-1243.27	200.59	2068.56	414.85	2890.4
Depreciation	1096.38	1006.27	1037.69	1028.74	900.91
EBIT	-2339.65	-805.68	1030.87	-613.89	1989.48
Interest	509.75	487.75	480.49	423.46	484.18
EBT	-2849.39	-1293.43	550.38	-1037.35	1505.31
Taxes	0	-419.96	59.93	28.26	304.84
Profit and Loss for the Year	-2849.39	-873.47	490.45	-1065.61	1200.47
Extraordinary Items	0	0	0	0	0
Prior Year Adjustment	0	0	0	0	0
Other Adjustment	0	0	0	0	0
Reported PAT	-2849.39	-873.47	490.45	-1065.61	1200.47

Source : Compiled by the authors from www.economicstimes.com ; www.powerbullstocks.com

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