In (New) Flight Mode

Go First is positioning itself as the country's first ultra-low-cost carrier and has plans for an IPO. Will it succeed at a time when the sector is battling rising losses?

By **MANU BALACHANDRAN**

It perhaps comes naturally to Go First to put up a fierce fight when the chips are down.

After all, Nusli Wadia, chairman of the Wadia Group which owns Go First, has built a stellar reputation of being a fearless corporate gladiator, sometimes fighting his own battles or of those around him, over the past few decades. While he may have won some, and lost some others, the Wadia scion whose business legacy dates back some 285 years, is certain to never give up without a fight.

Among others, Wadia's corporate battles include the fabled tiff with the Reliance Group in the 1980s, the feisty boardroom saga involving food and beverage company Britannia in the 1990s, and recently, calling Cyrus Mistry's removal from the helm of Tata Sons "unjust", even if it meant taking on his childhood friend, Ratan Tata. Interestingly, Wadia's first corporate battle was with his father when he fought him to stop the sale of the Wadia Group's flagship company, Bombay Dyeing.

Perhaps, it's that same fighting spirit that Go First is now banking on in its attempt to turn around its fortunes, after nearly a decade-and-a-half without much success. For 16 years since it took to the Indian skies, alongside IndiGo and SpiceJet, the Mumbai-based airline has largely remained on the fringes. In the last decade, the airline has raised its market share from about 6 percent to around 8 percent.

Between April and June, the airline had a market share of 8.6 percent. In the quarter before that, it was 7.6 percent. In all, Go First carried 27.71 lakh passengers in the first six months of 2021. The numbers for IndiGo and SpiceJet were some 185 lakh and 41.42 lakh respectively. Go First is currently fourth behind IndiGo, SpiceJet and Air India when it comes to market share. The Tata group-owned Vistara, which began operations a decade after GoAir, has a market share of 6 percent.

Yet, all that could possibly change if a new plan set in by the management at Go First finds shape. Over the next two years, the airline wants to corner 20 percent of the domestic market, with a fleet size of 87 aircraft from 55 currently. The company operates Airbus A320 Neos and is expected to add over 78 aircraft after 2023.

As part of its turnaround plan—which had been in the works for almost a year and is already showing results, according to company insiders—the airline rechristened itself Go First from GoAir. The move, it reckons, will help in creating a stronger brand identity as it positions itself as the country's first ultra-low-cost carrier (ULCC). A ULCC, unlike a low-cost carrier, operates with unbundled fares, making it cheaper for customers, which means that apart from the seat, all other extras such as baggage or food are subject to an additional fee. ULCCs usually have fewer amenities than low-cost carriers, which provide a bigger revenue source from ancillary services for airline operators.

Helming that transition is Ben Baldanza, who has taken charge as vice chairman. He is a pioneer in the ultra-low-cost airline model, having served as CEO of Spirit Airlines for over a decade. Baldanza also has Kaushik Khona, a long-time Wadia Group veteran who has returned to Go First after leaving as its CEO in 2011. Baldanza has been part of the airline's board since 2018 and has a reputation for transforming US-based Spirit Airlines into the first ULCC in North America with cheap fares while ensuring high profit margins. During his tenure, Spirit Airlines increased its fleet from 32 to 100.

"Consumers in India are hugely value conscious, but are quite demanding when it comes to the flying experience," Baldanza had said during the rebranding. "The combination of attractive air fares, a squeaky-clean flying experience, well sanitised flights and on-time performance is what Go First is designed to deliver."

By September-end, the company plans to mop up some ₹3,600 crore from the bourses as part of its plan to go public. Go First wants to use the proceeds towards largely repaying its debt, including dues for fuel supplies. "We believe that the pre-payment or scheduled repayment will help reduce our outstanding indebtedness and finance cost, assist us in maintaining a favourable debt-equity ratio and enable utilisation of our internal accruals for further investment in business growth and expansion," the company said in its draft red herring prospectus.

While the Securities and Exchange Board of India has temporarily halted the initial public offering (IPO) due to a pending inquiry against Bombay Dyeing Manufacturing Company Ltd and its promoters, the Wadias, clearance is expected to come through. It plans to go public by October. Go First is trying to raise money at a time when the aviation industry is battling turbulence with cumulative losses of ₹15,086 crore in the previous fiscal, according to government estimates.

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VICE CHAIRMAN, GO FIRST

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"For a carrier to access a fairly substantial amount indicates it is in dire straits," says Shukor Yusof, founder and analyst of Malaysia-based aviation consultancy firm Endau Analytics. "It isn't clear if investors are keen to fund it given that the airline has accumulated sizeable debts. I suspect it will be tough to raise that kind of money." Part of the scepticism, Yusof reckons, is due to the poor management decisions in the past few decades. "Go Air didn't have as good a business model and management as IndiGo or even SpiceJet. It was slow to react to the lucrative Indian market that is now overwhelmingly controlled by IndiGo."

DEALING WITH TURBULENCE

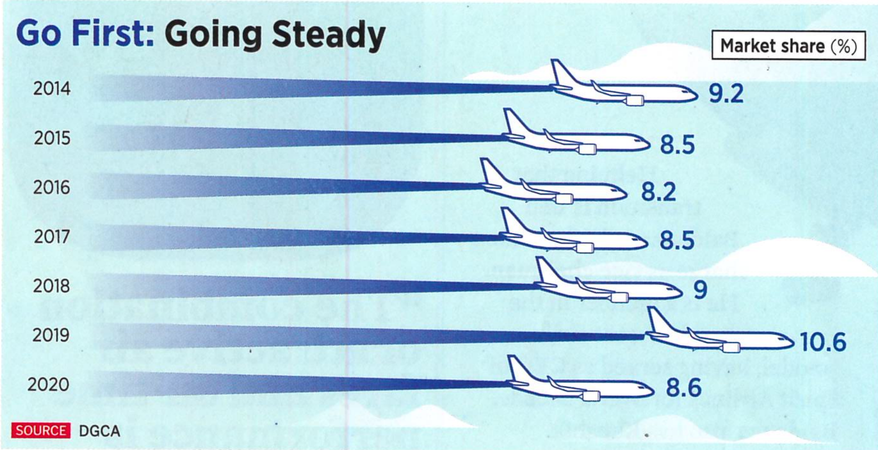
Go First began operations at a time when India's low-cost airline boom was just about starting. The airline launched its services in November 2005, a few months before rival IndiGo started operations in 2006. Go First's parent group, the Wadia Group, comprises the ₹87,000-crore Britannia Industries, the 150-year-old Bombay Burmah and 140-year-old textile company Bombay Dyeing. The company started with three leased aircraft and was touted as the brainchild of Nusli Wadia's younger son, Jeh Wadia.

However, it could never capitalise on India's rapid growth in the aviation sector. "GoAir was never as aggressive as its peers in chasing market share, as it prioritised conservatism in a highly competitive sector," Varun Ginodia, analyst at financial advisory firm Ambit, wrote in a recent report. "Consequently, its market share rose to only 11 percent in 2019 versus 6 percent in 2010. In comparison, IndiGo's market share rose to 47 percent in 2019 from 16 percent in 2010. SpiceJet's market share gains also appear muted (15 percent in 2019 versus 13 percent in 2010), but note that it saw a big decline in 2014-15 when it nearly faced bankruptcy. GoAir is also the truest LCC in the Indian aviation with a single-type fleet structure and point-to-point travel."

IndiGo and SpiceJet operate a two-fleet structure within their fleet, with the smaller aircraft catering to Tier II and Tier III towns. "However, conservatism did not help the balance sheet," adds Ginodia in his report. "GoAir had leverage levels like SpiceJet, driving finance cost per ASK (available seat kilometres) higher. Hence, the bulk of IPO proceeds will go towards debt repayment." ASK or available seat miles are key finance metrics in the aviation business and are calculated by multiplying the number of kilometres that an airplane will be flying with the number of seats available for a given flight.

"Market share and load factors are perhaps the most misunderstood metrics in Indian aviation," says Satyendra Pandey, partner at advisory firm AT-TV and former head of strategy at GoAir. "Cash flow and sustainable profits matter, and both need a clear strategy, prudent capital allocation, and a management team that can deliver. GoAir should have grown faster to capitalise market opportunities which could have positioned it well. It was one of the first LCCs to launch in India and at one time had a stronger presence than carriers that have now become behemoths. Being overly cautious has come with its costs."

Over the past few years, apart from Jeh Wadia, the company has not had a steady leadership at the top with CEOs coming and leaving within short durations. Kaushik Khona joined a year ago after Vinay Dube, a former CEO of Jet Airways, left after six months at the helm. Khona's appointment was the fourth in five years. In 2018, Wolfgang Prock-Schauer, then CEO of GoAir, left to join IndiGo. The company then appointed Cornelis Vrieswijk,



Battling Turbulence

Go First's financial performance

	Revenue (₹cr)	Profit (₹cr)
2018	4601.1	-31
2019	5936.7	-386
2020	7258	-1270

SOURCE DGCA

What works for Go First

- Renewed focus on Ultra Low Cost operations and unbundling of fares
- Professional management after years of promoter-centric management
- Strong promoter group
- Single type of aircraft helps in reducing costs
- Post-IPO reduction in debt

Challenges

- IndiGo's domination in the Indian skies
- New entrants into the sector, including Akasa

who quit in nine months. That was followed by Dube's appointment.

"Unless the owners are ready to allow professionals to take over and restructure the carrier to prepare for a post-Covid recovery, it may not be easy," says Yusof.

In March, Jeh Wadia stepped down as managing director of Go First and handed over the reins to a professional management, akin to a move at Britannia, where the promoters exercise little control over the day-to-day operations. "With the goal of taking GoAir to its next phase of growth, the promoters and its board came together to formulate a long-term plan," Go First said at the time of Jeh Wadia's departure. "Among other initiatives, a key element of this plan, forged over weeks of discussions and consultation, was to further strengthen the management by bringing on board proven industry professionals, a strategy that has worked well for the group in its other ventures, including Britannia."

PIVOT TO ULCC

Yet, turning around fortunes won't be easy, more so when the aviation sector has been stuck in a quagmire.

Years of cautious approach to growth also came to haunt the airline, particularly as airlines across the country struggled in the wake of the Covid-19 crisis. India's airlines are likely to register a consolidated loss of about $4.1 billion during FY22, according to aviation consultancy firm CAPA India.

"GoAir's conservatism is not backed by a strong balance sheet though, as it has the highest net debt/Ebitda (including lease liabilities) among its LCC peers," the Ambit report says. "The cash balance at the end of December 2020 was a mere ₹11.6 crore compared to ₹120 crore at the end of FY20." The net debt-to-Ebitda ratio is a ratio that shows the number of years it would take for a company to pay back its debt if net debt and earnings before interest depreciation and amortisation are held constant.

So, the airline is now looking at transitioning itself into a ULCC. In February, the Directorate General of Civil Aviation (DGCA) allowed airlines to unbundle certain services such as preferential seats, meals, use of airport lounges, check-in baggage, transport of sports and musical equipment, and make them chargeable.

"The rule to allow unbundling of fares by permitting airlines to charge for 15 kg baggage, which otherwise was free for all these years, was critical," according to a company insider. "That helped in our thinking process. We thought why not evaluate ourselves as a ULCC instead of the LCC. Because, when you do costing, you are also incorporating the cost of handling and fuel consumption for the baggage. And, therefore, when we got an opportunity to unbundle, we repositioned ourselves."

The company has begun seeing growing revenue ancillary streams, and those now contribute to 15 percent of the total income compared to about 7 to 8 percent earlier. "This is even when we are not selling the merchandise on board," says the company insider. "We are not selling food on board now because of Covid-19."

Yet, it won't be as easy as Go First expects. "A ULCC model is easier said than done. Structurally, there are very few costs that can be further lowered," says Pandey. "To deliver on

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PRANAV HALDEA
MANAGING DIRECTOR,
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[redacted]

lower costs, the airline will require extreme efficiency, examination of each cost with a fine-tooth comb, and consistently improving volumes. IndiGo, perhaps, does this the best because of its long-term planning and huge volumes. For Go to do this, it will require a stable management team that can consistently deliver. Unfortunately, that has not been the case and to change directions in-between has proven to be disastrous."

To help with the transition, the company intends to raise ₹3,600 crore from the capital markets, of which ₹2,015 crore, or 56 percent, is planned for prepayment of its outstanding borrowings. Up to ₹279 crore is earmarked for the replacement of letters of credit issues to certain aircraft lessors and ₹254 crore for repayment of dues to the Indian Oil Corporation. That would mean, another ₹1,000 crore will be made available for expansion needs.

"The debt repayment is more of a treasury function," the insider says. "It has more to do with saving interest cost. The company can add ₹170 crore to the bottom line by saving interest cost."

It helps that India's bourses have seen a bull run with strong interest from retail investors. "The timing is a bit of a surprise, given the state of the aviation industry," says Pranav Haldea, managing director at Prime Database Group, a capital market research firm. "Typically, companies launch their IPO after a few quarters of strong growth in financials. However, given the liquidity in the market, if the valuation is attractive vis-a-vis listed peers, you could see strong demand."

Go First's plans to restructure itself into a ULCC will also mean that the company will have to take on Akasa, a new airline to be launched by Rakesh Jhunjhunwala, known as the Big Bull of the stock markets. Akasa is reportedly in talks with Boeing to buy up to 100 737 Max aircraft. Jhunjhunwala is joined by former Jet Airways and Go Air CEO Dube and his family members, while ex-IndiGo president Aditya Ghosh is a board member of the airline. Jet Airways is also looking to stage a comeback under a new management after the company shut down operations in 2019.

"Go finds itself in a market that is intensely competitive and driven by paradoxes," explains Pandey. "Discounting is common and airlines in the country have witnessed tremendous losses due to a lack of pricing and capacity discipline. Six airlines are competing for a piece of the pie that has shrunk. If that was not bad enough, there is a new entrant on the horizon and a grounded airline trying to revive itself. For any airline, absence of a clear direction, capital infusion and stable management will make for an extremely turbulent ride."

History suggests that the Wadias are unlikely to give up without a fight. With a new management at the helm, Go First might be in for some tailwinds. F