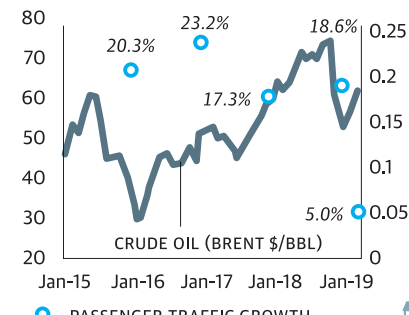


Emergency landing

Rising oil prices and currency volatility have tempered air traffic growth and capacity utilisation for the airline industry in India. The financial performance of Indian airline companies have nosedived, according to a report

SLOWING TRAFFIC GROWTH

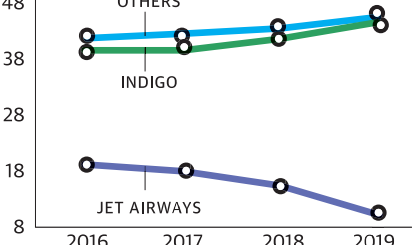
Domestic passenger growth slowed to 5% in Q1 of 2019 vs 24.1% a year earlier. International passenger traffic too slowed, driven by a shutdown of airspace over Pakistan, leading to many cancellations and rerouting of flights



Period	Passenger Traffic Growth (%)	Crude Oil (Brent \$/BBL)
Jan-15	20.3%	60
Jan-16	17.3%	40
Jan-17	23.2%	80
Jan-18	18.6%	60
Jan-19	5.0%	20

MARKET SHARE DYNAMICS

Indigo has maintained a market share of over 36% post 2015, and has further consolidated its position with a 44.3% share in Q1 of 2019. Air India and SpiceJet have remained among the top 4 airlines with 12-15% market share over the last 3 years



Year	Indigo (%)	Others (%)	Jet Airways (%)
2016	36	38	18
2017	38	40	16
2018	40	42	14
2019	44.3	44	8

NUMBERSPEAKE

The industry had operating margin of 10-15% when crude prices were at \$30-45 a barrel in FY16. Margins started contracting after Q4 of 2017, when prices recovered. Lately, oil prices and grounding of fleets due to technical snags have led to cancellations

Jet Airways	JET AIRWAYS		
(in ₹ cr)	FY17	FY18	9M19
Fuel Expenses#	25.50%	29.90%	39.00%
Net Profit	1,482.52	-767.62	-3,208.23

SpiceJet	Spicejet		
(in ₹ cr)	FY17	FY18	9M19
Fuel Expenses#	30.10%	31.30%	39.80%
Net Profit	430.73	566.65	-372.36

InterGlobe	IndiGo		
(in ₹ cr)	FY17	FY18	9M19
Fuel Expenses#	34.10%	33.70%	44.40%
Net Profit	1659.19	2242.37	-433.45

THE CRUDE ANOMALY

In FY19, crude prices fell 7.3% while aviation turbine fuel (ATF) price in the same period has gone up by about 3%, indicating the entire benefit of reduction in crude prices has not been passed on to the industry even though increase in prices is more dynamic. This, despite the government lowering excise duty on ATF from 14% to 11% in November

Period	ATF price for Domestic	ATF Price for International	Difference# (%)
2019-04-01	₹63,448	\$655	38
2018-12-01	₹67,980	\$684	42
Sept. 2018	₹69,161	\$700	41
2018-06-01	₹69,603	\$720	38
2018-03-01	₹60,738	\$688	26

- 1\$ = ₹ 70, lowest price among 4 metros considered
Source: Care Ratings, IOCL

No wind, no sun: green projects in limbo

Renewable energy sector stifled by a host of issues — from low tariffs to lack of government push

M. RAMESH

When the BJP Government assumed office in 2014, the Indian solar industry was on tenterhooks. The Ministry of Commerce had recommended anti-dumping duties ranging between ₹6 and ₹47 per watt of solar modules imported from China, Malaysia, Taiwan and the U.S., and the recommendation had to be only formally notified by the Ministry of Finance.

Solar power had barely begun to take roots in India, and the country had a total installed solar power capacity of 2,632 MW. The industry was taking baby steps with the aid of cheap, imported modules. The anti-dumping duty was going to kill it. On the other hand, a clutch of domestic players had set up module manufacturing plants in India, eyeing business from a sunrise industry. Crushed by cheap imports, they looked up to the government for protection.

Faced with a vexing dilemma, the new government made a pragmatic choice. It said ‘no’ anti-dumping duties; it also told the domestic manufacturers, ‘don’t worry, we will get the government-owned companies buy from you.’

The way the government handled a rather ticklish problem engendered confidence, which strengthened soon when the government set up an ambitious target of 175 GW for renewable energy — 100 GW for solar, 60 GW for wind and the rest for bio-mass and small hydro — to be met by 2022. Since the solar target was five times that set earlier by the previous government, it caused ripples of excitement around the world. It looked like the Ministry meant business. After such a brisk start, *acche din*, it seemed, was just around the corner.

State of disarray

Five years down the line, the Indian renewable industry is



Enveloped in darkness: Depression of tariffs has resulted in slow capacity addition. • GETTY IMAGES/ISTOCK

in a state of disarray. Wind and solar power capacity additions have been far less than satisfactory and hardly on the path to meeting the targets. Both sectors are buffeted by a range of issues — some caused by the government — but as we will see a little later, no help from the government was forthcoming.

And, outside of wind and solar, too, precious little has happened. For instance, solar heating is a segment that gives the best bang for the buck in the clean energy space, but no policy *josh* is seen. Offshore wind is still distant despite international players responding overwhelmingly when asked to express interest.

The government has not had the long-term vision to look into other emerging areas where India could leapfrog and lead the world — such as ocean and geothermal energy. Biomass and small hydro are moribund. So, what did the Ministry of New and Renewable Energy (MNRE) do in all these five years? Its singular achievement was bringing down tariffs of wind and solar power that is sold to the electricity distribution companies. In the single-minded pursuit of hammering down tariffs, a

lot else has been missed.

Even the depression of tariffs, which has benefited only the discoms and not the consumers, has come at a big cost — slow capacity addition. Since 2014, India added 28,000 MW of solar power and 14,500 MW of wind power. (Today, India has 30,600 MW of solar power capacity and 35,600 MW of wind power.)

The solar number appears respectable, but that is thanks to the tailwinds provided by the steep fall in the prices of the principal component of a solar plant — the module. Module prices plunged from around 63 U.S. dollar cents a watt in 2014 to around 23 cents now. The growth in solar power installations happened, therefore, due to fortuitous module prices.

Record addition

As for wind, there was one outlier year — 2016-17 — when new capacity additions reached a record 5,500 MW, as energy companies rushed to get their foot in before some incentives expired. If you discount that year, the achievement is nothing much to write home about. The reason for the state of affairs is over-emphasis on keeping tariffs low. In

different bids, wind and solar tariffs fell to a low of ₹2.44 a kWhr. Many feel that such a low tariff is unviable and, quoted by bidders only in a rush to grab projects.

However, the policy makers have taken that number to be some kind of a benchmark. Ceilings on tariffs have been brought in for solar and wind so as to keep tariffs depressed; bids have been cancelled just because the government lowers tariffs than quoted.

While, ‘solar’ has had to face uncertainties in terms of safeguard duties, GST rates and a falling rupee, wind installations have been crippled by land problems in Gujarat, the State that most of the developers flocked to.

To avoid such flocking to the windiest sites, the industry has been asking the government to bring in State-wise or even sub-station-wise tenders, so that the setting up projects could be more spread out, but to no avail. Nor has the government been sympathetic to the industry’s request that there could be just a closed tender, where the bidder who offers the best price bags the project, as opposed to the current method of holding auctions, in which bidders try to outbid each other. The government has shaken its head.

Tulsi Tanti, the chairman of the Indian Wind Turbine Manufacturers Association, and CMD, Suzlon Energy, notes that in no other sector, say railways or defence, are auctions held for awarding contracts — it is always a closed tender.

Then the industry pleaded for a fixed tariff which would come down annually so that the energy companies earn more in the initial years so that they could pay off their debts.

Again, the plea only fell on deaf ears. And, the industry says it has to contend with rampant corruption or ex-

tortionate prices while securing right-of-way in all States. On top of all this, the State government-owned utilities have been delaying paying their dues to the energy companies. The government could have helped by getting at least the BJP-ruled States to pay the dues on time, say industry insiders.

In April 2018, a call for expression of interest to set up 1 GW of offshore wind off Gujarat coast drew overwhelming interest from domestic and global players.

The MNRE announced ambitious targets — 5GW for 2022 and 30 GW for 2030. A government press release said, “Experts laud India’s ambitious offshore wind targets, express optimism.” In October, at the RE-INVEST event a MNRE official said the Ministry needed just one more approval before rolling out the offshore wind tender.

The tender is yet to come. Looking beyond conventional wind and solar plants, too, the MNRE has little to show. For instance, the adoption of solar-powered agricultural pumps is way below the potential; it was not until February 2019 that the government came out with a scheme to get farmers use such pumps.

And there are other areas where one would expect the government to display long term vision.

Ocean energy (from waves, tides and currents), for instance, shows great promise, can provide steady, 24x7 power. After a December 2014 study by CRISIL and IIT-Madras, which recommended kick-start support by the government, there has been absolute silence.

True, it is expensive — just as solar was a decade ago — but a far-looking government would begin some ground work. Yes, the government began on a positive note, but seems to have lost steam during its run.

Ethiopia beckons Indian garment exporters

Africa offers duty-free access to the U.S. and EU

M. SOUNDARIYA PREETHA

Melat and Rahel, both 24 years of age, completed their studies last year in the east African country of Ethiopia and landed their first job in an Indian textile company. They are among the 700-odd young men and women employed at KPR Export Plc. at Makelle, Ethiopia. They were trained at KPR’s Coimbatore manufacturing plant.

Standing outside the work shed at Makelle Industrial Park, where his company is making garments, KPR Group’s executive director C.R. Anandakrishnan says SCM Garments, again from Coimbatore region, has occupied the adjacent shed. The two companies had generated over 1,500 jobs.

Bumpy ride

A drive from Makelle town to the Makelle Industrial park in Tigray region, Ethiopia, is a bumpy ride with the connecting roads under development and not many buildings around. Yet, the park, with its plug-and-play work sheds, is attracting Indian textile companies.

Ask Mr. Anandakrishnan why Indian textile units, especially garment manufacturing factories, are expanding to new geographies, mainly Africa, and he says the prime reason is the duty-free access to the U.S. and the EU markets.

Apart from Ethiopia, Kenya is attracting investments from garment manufacturers, while Tanzania and Uganda are also opening up. It is not only Indian factories, but also textile companies from China, Sri Lanka, and Bangladesh that are investing in these countries, adds Govind Venuprasad, coordinator of Supporting Indian Trade and Investment for Africa (SITA) pro-



Africa calling: Apart from Ethiopia, Kenya is attracting investments from garment manufacturers. • GETTY IMAGES/ISTOCK

ject of the International Trade Centre. “For a polycot t-shirt, Indian exporters pay 32% import duty in the U.S. if shipped from India. It is duty-free [if exported] from Africa. For cotton t-shirts, the duty-free access gives 16% advantage to an exporter,” he adds. For an industry that works on thin margins in India, this is a substantial advantage even if the buyer does not pass on the entire benefit. By 2030, India is expected to be a net importer of clothing. The African market is also growing. By setting up capacities in Africa, Indian companies can tap the potential in both these growing markets in the coming years, says Mr. Venuprasad.

Rising costs

Further, with the Indian economy growing, costs are on the rise. Indian textile and garment manufacturers need to be competitive in the international market, he adds. “India has a competitiveness problem. Our garment export growth has remained flat for the last few years. The Indian government and the industry should sit together and discuss the issues,” says Sanjay Jain, chairman, Confederation of Indian Textile Industry. “We did look at Kenya before finalising the invest-

ment in Ethiopia. But, the labour cost is high in Kenya. If we pay a worker \$200 a month in India, it is less than 50% of the amount in Ethiopia,” says Mr. Anandakrishnan. Indian investments across sectors started coming into Ethiopia after 2008 when the Ethiopian government came up with an attractive investment policy, and Indian industries were looking at frontiers outside India, says Mayur Kothari, convener of India Business Forum, Ethiopia. But, there are challenges companies face in Ethiopia. It is a landlocked country and hence, transporting goods to and from the ports in neighbouring countries means longer time and higher cost. Infrastructure is an issue, says Mr. Anandakrishnan.

Only industries that have scaled up capacities in India can afford long-term planning to invest in Ethiopia.

“The duty-free access is offsetting additional costs that we incur. Right now, it is really tough there. In the long run, efficiency will go up, infrastructure will be developed and it will be a worthy investment,” says Ashok, chief marketing officer of SCM Garments.

(The correspondent was recently in Ethiopia at the invitation of the International Trade Centre)

TALKING BUSINESS | GUENTER BUTSCHEK

With Nexon in the market, we are obviously a talking point at the dinner table

BS VI transition is the single largest investment that the automaker has made, with ₹1,200 crore spent last year

K. BHARAT KUMAR
RAGHUVIR SRINIVASAN

Tata Motors’ CEO Guenter Butschek completed three years with the company this February. In an interview, he elaborates on his strategy for the company when he came in and its execution. On challenges, he says the combination of headwinds is ‘unprecedented.’ Excerpts:

How has the past year been?

■ We have reached break-even for EBIT. It’s the first milestone. There is still some way to go to EBIT (earnings before interest and tax)- and PBT (profit before tax)-positive. But it’s all lined up because we have done our homework right, as far as our cost position is concerned.

And, we have improved public perception; we are being considered by more customers as we move from a 70% addressable target to a 90% addressable target.

If you take the fourth quarter, we saw an extremely difficult market condition in PVs as well as CVs (commercial vehicles). The CV market has been in a highly muted demand condition for five consecutive months. In particular, medium and heavy

duty trucks — especially cargo and in the later phase, construction vehicles also — got impacted for different reasons but largely because of the increased axle load (IAL) norms. The IAL gave vehicles now in the park a 20% increase in capacity.

Demand for this new capacity was not there, so freight rates dropped negatively, impacting the mood of the fleet owners/operators and of even private retail buyers. At the same time, there has been an overall slowdown in the economy.

How have you handled market volatility?

■ The turnaround has helped make us less vulnerable to volatility. This market is not going to be less volatile going forward. The severe

competition, for example in PVs, will become more severe. Because, when we were expecting fewer players in the market, there are going to be more players in the coming 12 to 18 months.

On CVs, we need to get out of the current situation. We got hit by muted demand while at the same time the pipeline was loaded with a certain stock level.

Also, our market success seems to be determined on wholesale. But wholesale is not the reality of the market environment. Retail is, because this is the metal that is moved to and operated by the customer. The rest is a question of financial strength and working capital available with dealers or OEMs. Increase in stock led to a severe competition on discounting and pricing. It had a huge negative impact on what we call the market operating price.

Do you engage in discounting?

■ We do not engage in discounting but you cannot

completely get away from it because some customers are important to you and if you get challenged on it here and there you need to give something in order to retain this customer or to get one other contract. Are we the ones driving this? No. We have walked away from unacceptable deals because we have the responsibility as the market leader to make sure that we don’t structurally damage our future.

Will there be a rush for BS IV vehicles ahead of deadline?

■ That is what we assume. It would be best if the rush starts in Q3 and not in the last couple of weeks (before deadline). Normally, we run our planning on a monthly basis with a 6-12 month forecast. A 12-month forecast is meaningless, six months is questionable, ‘next week’ is credible.

What is your investment in the changeover to BS VI?

■ The BS VI transition is the

single largest investment that Tata Motors has ever made. Last year, more than ₹1,200 crore funded the transition.

Has your turnaround helped change your image as a stodgy CV manufacturer?

■ When I came in three years ago, all the attributes attached to the PV business were not too encouraging. For new launches at the time, a report to the board said our products didn’t look new and it appeared that only a face-lift had been gi-



ven. The question was, where were the products that had the power to lead Tata Motors into the future? And then we came out with the Tiago, the Hexa and the Nexon. We have seen significant change in perception. We had a rigorous cost reduction exercise, with each component seeing a value-add or value-engineering. In Pune, we have a tear-down factory where vehicles are literally torn down. We take out components from our vehicles and others’, compare the cost and the

design and see what the cost learnings are. As a result, we saw volumes rise. Our production volume moved up.

When I joined, the expectation was that the Tiago would do 3,500 units per month. Now we are consistently selling 8,000-9,000 units a month without investing in capacity addition but through efficiency enhancements. When I joined 3 years ago, we were not a talking point at the dinner table, at least not for the youth. Now with the Nexon in the market, we are obviously a talking point at the dinner table.

What is the outlook for the Nano?

■ We have two architectures. We have to look at which product we are going to carry into the future — is it the Hexa, the Nexon...? For any product on the table, we have to evaluate the value added against its capability to meet future requirements on emissions. But more concerns stem from changes in safety regulations. Lots of products in the industry will not meet requirements without major changes.

So, do I take my bet on a product where a huge investment is required because of the higher cost, accompanied by low volume in the market as these products have seen their best days behind them?

I would then need to invest more, thus reducing our contribution margin. Some products will come to the end of their lifecycle. We will take a call as these products reach the end of their lifecycle in different markets.

Because an investment in these architectures would not have been a profitable proposition. This is something I can’t defend in front of my shareholders. So, you have to take out the product that does not contribute. You have to make the right choice, not for sentiment but for business.