JET ETIHAD STRATEGIC ALLIANCE: THE ROAD AHEAD

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ABSTRACT

Jet Airways Ltd. soared to unprecedented heights at the beginning of the current millennium. And then calamity struck in the form of the global financial meltdown of 2008 which brought many mighty corporations to their knees. Downturn in economic activity impacted Jet's performance, bringing it to the brink of failure. The management at Jet was left grappling with many operational and personnel related challenges. It was a time for Jet to take certain tough decisions. And it did make them. With the opening up of India's aviation sector for foreign direct investment, Jet became the first Indian flier to seek foreign alliance. Would it be enough to ensure Jet's flight to success or would such an alliance be fraught with perils of other kind? Should the step be taken and what should be the extent of partnership?

INTRODUCTION/OVERALL ISSUES

> The global world is focusing on Indian aviation, starting from manufacturers, businessmen, airlines, global businesses, tourism boards to individual travellers and shippers. If there is a common goal among all stakeholders in the aviation sector of India, a bright future can be expected.

—Tony Tyler, Director-General and CEO of International Air Transport Association (IATA)[i]

The Indian aviation sector ranks fourth in domestic passenger volume and ninth in the civil aviation market in the world. Most reports related to the sector are very positive about its future prospects. It is expected that the Indian civil aviation market will become third largest by the end of the year 2020. It is also predicted, that by 2030, it will be the largest in the world. The outlook on India's aviation sector is quite positive both in terms of growth of passenger traffic and the need for new aircrafts. In 2012, in an endorsement of the future projections about the Indian aviation sector, Boeing, a leading aircraft manufacturer in the world, estimated that by the year 2031, India would need to acquire nearly 1500 new aircrafts (valued at USD175 billion) to cater to its rising passenger traffic (expected to grow at the highest pace in the world)[ii].

According to the Airports Authority of India (AAI), from FY2011 to FY2014, the compound annual growth rate (CAGR) of passengers was 5.6 per cent and total aircraft movement was 3.3 per cent. The same positive trend was anticipated in terms of the aircraft movements, passengers and freights by the year 2019.

Despite all the positive developments, the Indian aviation industry is facing a rather paradoxical situation. Though the sector continues to grow, the individual airlines are distressed and burdened with debt, infrastructural issues, and high taxes. Kingfisher is grounded, Spice Air is in financial e, Air India has a total debt of approximately USD6.4 billion and other firms are barely surviving. On the whole, India's leading airlines reported a combined loss of USD1.65 billion between 2012 and 2013.[iii]

The political leadership in India and leading airlines sought foreign direct investment as a panacea for all the sector's ills. A proposal to allow direct investment by foreign airlines up to 49 per cent in India's domestic airlines was cleared by the Cabinet Committee on Economic

Affairs (CCEA) on September 14, 2012, setting the stage for numerous cross-border alliances. As a result of the opening up of the sector, many airlines in India moved to seek foreign connection. By the beginning of 2015, Tata had launched a carrier named Vistara under the banner of its joint venture with SIA and AirAsia India, a subsidiary of AirAsia, had commenced its operations in India. Not to be left behind, India's national carrier, Air India joined Star Alliance, which is a group of global airlines. But the most important and pioneering development was the fruition of Jet-Etihad deal, which was the first of its kind in the Indian aviation sector. The deal was considered a milestone as far as the opening up of the Indian aviation sector to foreign investment is concerned.[iv]

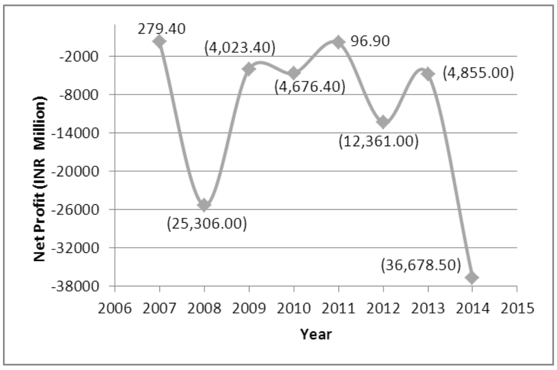
The Jet-Etihad deal that was initiated in 2012 reached its culmination in the year 2013. The deal under which Etihad had proposed to pick 24 per cent stake worth INR20,580 Million in Jet's equity was closed with the announcement to the effect by the two airlines on November 20, 2013 . A deeper look into the unfolding of the deal, the details of the transaction, challenges encountered and the post deal scenario a year and a half after the deal can be expected to give an interesting insight into the dynamics of the sector as a whole. While reviewing these events, it is critical to evaluate whether equity participation and foreign direct investment (FDI) in general, is a panacea for the Indian aviation sector. Can foreign participation satisfy the quest of the players in Indian aviation sector for continued survival and the institution of scalable business?

BACKGROUND OF THE COMPANIES: JET AIRWAYS AND ETIHAD AIRWAYS

JET AIRWAYS LTD.

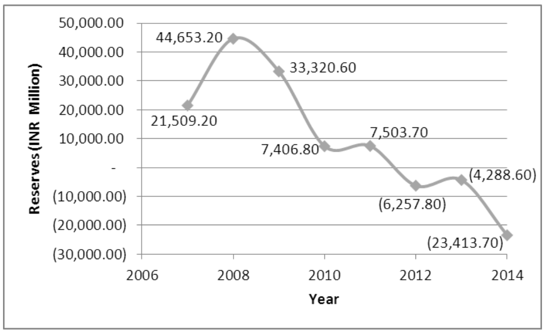
Jet Airways is a Mid Cap company having a market capitalization of INR 5,1192.7 Million and a total of 113,597,383 shares outstanding as on December 31, 2014. Jet Airways leased a fleet of four Boeing 737 aircrafts to initiate its commercial operation as an Air Taxi Operator on May 5, 1993 after it had been incorporated as a limited liability private company in 1992 under the Companies Act, 1956. It was set up as a fully owned subsidiary of a holding company named Tail Winds. At that time, Mr. Naresh Goyal, a non-resident Indian (NRI), was the only shareholder of Tail Winds, which was based in Isle of Man.
On the basis of Jet's application dated March 12, 1993, the FIPB granted its approval on June 28, 1993 to the proposal of foreign collaboration for investment in Tail Winds, which held 100 per cent of the Equity Share capital of Jet at that time. The collaboration proposed 60 per cent of the stake in Tail Winds to be held by Mr. Naresh Goyal and the balance 40 per cent to be equally divided between Gulf Air and Kuwait Airways.[v] However, Goyal had to acquire the 40 per cent stake again to comply with the guidelines laid down by the Government of India in its policy on the equity participation of OCBs/NRIs and foreign airlines in domestic firms in the aviation sector in India. This was done at the behest of the Ministry of Corporate Affairs (MoCA) in April 1997. Mr. Goyal continued to be the sole shareholder of Jet Airways till 2005 when Jet offloaded a minority stake of 20 per cent on the Bombay Stock Exchange (BSE).[vi] Jet soon rose to become iconic private airline in India but hit air pockets and became turbulent in the aftermath of the great downturn in the wake of the global financial crisis. Some highlights of Jet's financial information since 2007 are displayed in exhibits 1 through 4.

EXHIBIT 1: NET PROFITS OF JET AIRWAYS (2007–2014)



Source: Jet Airways Website, "AnnualReport2007-08.pdf, AnnualReport2008-09.pdf, annualreport2010.pdf, JetAR2011.pdf, AnnualReport2012-13.pdfAnnualReport2013-14.pdf, accessed March 2, 2015

EXHIBIT 2: RESERVES OF JET AIRWAYS (2007-2014)

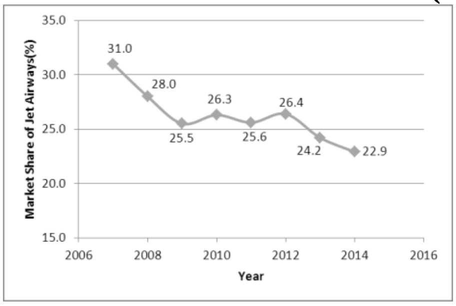


Source: Jet Airways Website "AnnualReport2007-08.pdf, AnnualReport2008-09.pdf, annualreport2010.pdf, JetAR2011.pdf, AnnualReport2012-13.pdfAnnualReport2013-14.pdf, accessed March 2, 2015.

EXHIBIT 3: SHARE PRICE OF JET AIRWAYS (2007–2015)

Source: Developed by case authors based on information available at BSE's website, www.bseindia.com/markets/equity/EQReports/StockPrcHistori.aspx?flag=0&expandable=7, April 18, 2015.

EXHIBIT 4: MARKET SHARE OF JET (2007–2014)



*Market Share of Jet and JetLite **% used is average for calendar year. For 2014, it is from January to May.
Source: Developed by case authors based on data from Directorate General for Civil Aviation (DGCA)) available at www.articles.economictimes.indiatimes.com/2014-07-17/news/51656562_1_naresh-goyal-jet-airways-etihad/2 accessed March 31, 2015

Even before the alliance with Etihad, Jet Airways has tried to forge alliances to strengthen its position in the sector. In January 2006, it announced the biggest takeover deal in Indian aviation history by proposing to buy Air Sahara for USD500 million in an all-cash deal. The deal broke down in June 2006, only to be revived in 2007, when Jet announced its buy out of Air Sahara for an amount of INR14.5 billion (USD340 million). The bought out entity was christened JetLite and promoted to the fliers as a carrier positioned between a low cost airline and a full service airways. The experiment did not last long and Jet put forth a proposal to integrate JetLite completely with Jet Airways in August 2008. The assimilation of most operational areas and functions such as engineering, maintenance, stores, ground handling and revenue management of JetLite into Jet Airways was expected to lead to improvements in reliability, the quality of operations & services and bring about cost savings and economies of scale.[vii]

In its bid to compete with low-fare airlines and survive the post-2008 downturn, Jet introduced a new all-economy low-fare brand called Jet Konnect in May 2009. It was launched on sectors that had 50 per cent or less load factor. The idea was to serve routes where the traffic was price sensitive and had very little demand for a full service product. Initially, Jet Airways Konnect supplemented the operations of JetLite, and provided Jet with an effective way of competing with low-fare, no-frill carriers. However, the experiment did not sustain for long and Jet Airways took a decision to consolidate the two brands, Jet Airways Konnect and JetLite into one entity named JetKonnect in March 2012. The Jet management saw the consolidation as a step towards simplifying the service proposition for Jet's fliers and enhancing brand recall. However, this also did not continue for long and the operations of JetKonnect were wound up in December 2014. It was done primarily with a view to position Jet Airways once again as a full-service carrier[viii].

ETIHAD AIRWAYS PJSC[ix]

With the paid up capital of AED 500 million, Etihad was started by a Royal (Amiri) Decree by Sheikh Khalifa bin Zayed Al Nahyan as a flagship carrier for the United Arab Emirates in July 2003. Beirut was the first destination served by Etihad when it commenced commercial operations in November 2003. In addition to passenger transportation, Etihad also operates Etihad Cargo and Etihad Holidays. James Hogan (formerly CEO of Gulf Air) is the President and Chief Executive Officer of Etihad.

The airlines reported its first full-year net profit of USD14 million in 2011, in line with the strategic plan that had been announced by its CEO, James Hogan, way back in 2006. As per the information available on its website, Etihad carried 10.3 million passengers in 2012, a 23 per cent increase on the previous year. In 2013, completing a decade of existence, Etihad reported third consecutive net profit USD62 million up 48 per cent from the previous year. It also further enhanced its global presence by introducing six new destinations for passenger services across the globe. As per the latest facts and figures available on its official website, Etihad Airways delivered its strongest operational performance to date by carrying a record amount of passengers and cargo in 2014. It also announced 10 additional global destinations in 2014. Key highlights of Etihad's financial and operational performance are displayed in exhibit 5.

EXHIBIT 5: OPERATIONAL AND PERFORMANCE HIGHLIGHTS OF ETIHAD AIRWAYS

	Change	2013	2012
Revenue Passenger Kilometers (Billion)	Up 16%	**55.5**	47.7
Available Seat Kilometers (Billion)	Up 17%	**71**	61
Passengers (Million)	Up 12%	**11.5**	10.3
Seat Factor		**78%**	78%
Aircraft	Up 19	**89**	70
Codeshare Partners(Airlines)	Up 7	**47**	40
Cargo (Tonnes)	Up 32%	**486,753**	368,000
Care Airline Employees	Up 27%	**13,535**	10,656
EBITDAR (Million USD)	Up 30%	**979**	753
Partnership Revenue (Million USD)	Up 30%	**820**	629
Net Profit (Million USD)	Up 48%	**62**	42
Total Revenue (Million USD)	Up 27%	**6.1**	4.8

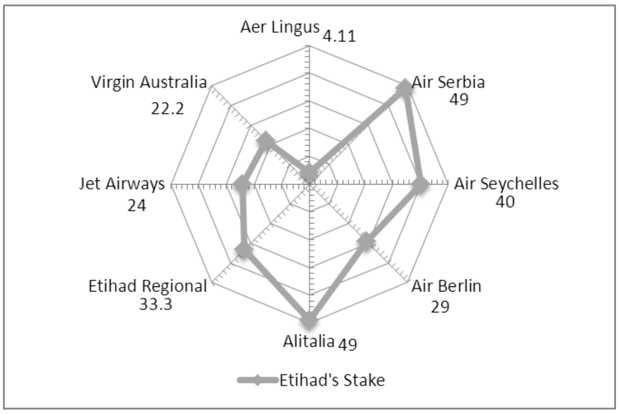
Source: Developed by case authors based on information available at www.resources.etihadairways.com/etihadairways/images/E_Book/HTML/AnnualReport2013_English/assets/basic-html/page8.html, accessed May 1, 2015.

Emirates, Etihad and Qatar Airways are the three key players in the sector in UAE. Etihad ranks second in UAE after Emirates and the market share of Qatar airways has declined over the years. In 2013, Emirates had 36.8 per cent of total market share of UAE and Etihad was stagnant at a pitiable 9.2 per cent.

To enhance its market share and global footprints, Etihad rolled out an extensive plan for inorganic growth and started making investments in other airlines by December 2011. In fact, one of the pillars of Etihad's global operations is its equity alliance with airways across the globe. Web of Etihad's Equity Alliance (as of March 2015) is illustrated in exhibit 6.[x] Etihad's quest for alliances commenced in December 2011 when it announced acquisition of stake in

Air Berlin. Subsequently, it acquired minority stakes in many airlines across the globe. The latest alliance that Etihad has entered into is with Italian flag carrier, Alitalia, for an estimated EUR€560 [1]million, resulting in formation of Alitalia-SAI.

EXHIBIT 6: ETIHAD'S EQUITY ALLIANCE (ASOF MARCH 2015)



Source: Developed by case authors based on information available at www.etihad.com/en-us/about-us/our-equity-partners, accessed April 16, 2015

DESCRIPTION OF THE CASE: THE JET-ETIHAD STRATEGIC ALLIANCE

Jet Airways had always vehemently opposed FDI in the aviation sector in India, but it welcomed the proposal allowing up to 49 per cent FDI in domestic carriers by foreign airlines when the Cabinet Committee on Economic Affairs cleared it on September 14, 2012. In fact, Jet initiated the discussions with Abu Dhabi-based Etihad Airways to sell 24 per cent of its equity stake to Etihad for INR20.580 Million[xi] with great alacrity. The discussions that began in 2012 were finally solemnized in November 2013, a couple of months after the India-Abu Dhabi bilateral air services agreement was ratified by the two governments to enable their airlines to fly 50,000 seats each week, up from the existing level of 13,700 at that time. The increase of 36,670 seats was proposed to be carried out in a phased manner over a three-year long period.[xii]

Long winding Path to Regulatory Approvals

After months of scrutiny, the deal was consummated in late 2013, after clearance by various Indian regulators. The Jet-Etihad deal had to weather many turbulent phases due to the objections raised by Indian regulatory bodies like Foreign Investment Promotion Board (FIPB), the Competition Commission of India (CCI) and the Securities and Exchange Board of India (SEBI). The deal also faced many issues and delays on account of political opposition and arguments.

The main concerns of the Indian regulators, particularly SEBI and FIPB, were related to the control of Jet getting transferred to Etihad and the shifting of Jet's revenue management office to Abu Dhabi. To overcome these concerns, Jet and Etihad had to alter their original agreement

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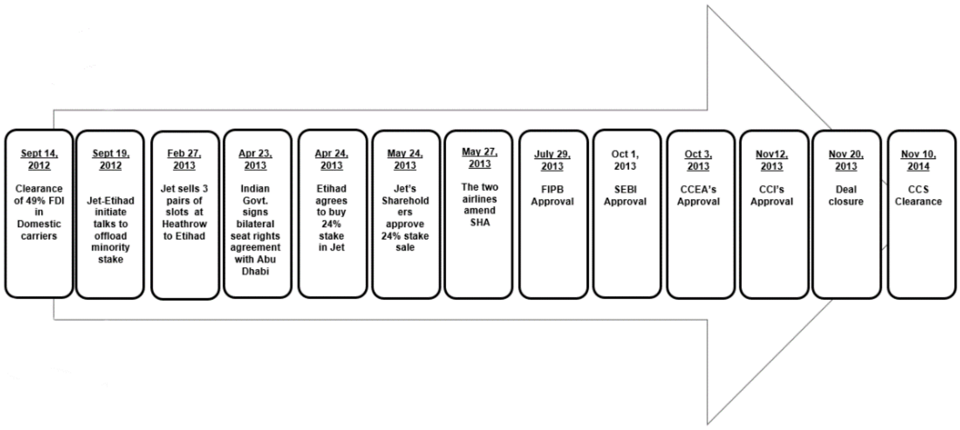
[1] *Etihad Airways announced its purchase of a 49% stake in Alitalia on August 8, 2014. The exchange rate that day was: 1 USD = 0.7456 EUR*

to ensure the control of Jet Airways remained with the Chairman of Jet, Mr Naresh Goyal after the deal. There were many corporate governance issues that had to be addressed by Jet to take the deal forward for regulatory approvals. The clearance from CCI, among the last regulatory approvals for this transaction, came after it had been cleared by three other regulatory bodies, namely, SEBI, FIPB and Cabinet Committee of Economic Affairs (CCEA)[xiii] (Exhibit 7).

EXHIBIT 7: TIMELINE OF JET-ETIHAD STRATEGIC ALLIANCE



Source: Developed by case authors based on www.archive.financialexpress.com/news/jet-airways-sells-24-per-cent-equity-to-etihad-airways/1197440 accessed March 31, 2015

APPROVAL WITH CAVEATS

The regulatory clearances related to the deal took a long time to come through and in the end they were successful only after a lot of amendments to the deal itself. The regulatory approvals and the conditions imposed for the clearance of the deal are discussed below in reverse chronological order.

Competition Commission's office in India (CCI) and Singapore (CCS)

The Jet-Etihad deal received clearance from Singapore competition watchdog (Competition Commission of Singapore) on November 10, 2014, thereby clearing the last of the regulatory hurdles in Jet Airways' commercial and strategic alliance with Abu Dhabi-based Etihad.[xiv].This had been pending for a long time, because there were concerns that the alliance "by its nature" had the potential to adversely impact competition in the aviation sector in Singapore. However, the commission finally granted the clearance stating that "on the balance" the efficiencies from the deal seemed to outweigh its anti-competitive effect.

Almost a year before the CCS approval, on November 12, 2013, the CCI, had approved the Jet-Etihad strategic alliance, paving the way for the closure of the deal that had been officially initiated on April 24, 2013. Indian entities seeking to undertake a significantly large merger and acquisition deal need to mandatorily take the approval by the CCI. CCI went ahead after ensuring that the alliance would not have an adverse impact on competition in the aviation sector in India. The fact that the two airlines were already partners in their respective frequent flyer programmes played a key role in the approval process.

Cabinet Committee on Economic Affairs (CCEA)

On October 3, 2013, the Jet-Etihad deal received the CCEAs go-ahead. However, it was made clear that the CCEA approval was not provide blanket coverage and that it was subject to certain regulations. The purpose of this statement was to make clear that if any security agencies raised concerns about the deal then the deal would be stalled.[xv]

Security Exchange Board of India (SEBI)

On Oct 1, 2013, SEBI granted its approval to the deal with a few riders and clauses. Though Eithad would be treated by regulators as a public shareholder, SEBI did not allow the combined shareholding of Jet and Etihad to go beyond 75 per cent.

It was clarified that the modified deal terms did not require Etihad to make an open offer to the public shareholders of Jet. While clearing the deal SEBI opined that the revised deal structure did not give controlling powers to the overseas carrier and it was in compliance with the Indian regulations.[xvi]

SEBI exempted Etihad from making an open offer[xvii], thereby removing the last regulatory bottleneck that was obstructing the first FDI by a foreign airline in India. The exemption was granted after studying the revised structure of the deal according to which Etihad could not be considered a promoter entity in Jet.

If open offer had been insisted upon by SEBI, Etihad would have automatically become the controlling partner of Jet with a stake of 50 per cent, 1 per cent more than what the revised sectoral FDI norms in India permit.[xviii]Obviously, this would have jeopardized the entire deal. Thankfully for the two airlines, SEBI felt that the revised structure of their deal did not activate the provisions of the India's Takeover Regulation, 2011 as the rights proposed to be acquired by Etihad could not be seen as causing a change in the control of Jet Airways after the deal was closed. However, in the interest of better corporate governance, SEBI took the precaution of advising the promoters of Jet Airways to divest 6 per cent of their holdings prior to making any allotment of equity to Etihad.

Foreign Investment Promotion Board (FIPB)

The process of regulatory approval of the Jet-Etihad strategic alliance, codenamed Project Sand dunes by Jet Airways, began with the FIPB on approval July 29, 2013 only after the two airlines amended the shareholders agreement to address the concerns of government, shareholders and SEBI regarding 'control' and 'ownership' of Jet. FIPB had earlier deferred its decision on June 13, 2013 citing lack of clarity in the post-deal ownership structure.[xix]

The major revision in the shareholders' agreement pertained to the decrease in Etihad's representation on the board of Jet after the deal. The original agreement between Jet and Etihad had mandated that Etihad would have 3 members on the board of the post deal entity, which was planned to have a total of up to 12 member board. The revised agreement also gave the right to the promoters of Jet to nominate the Chairman of the board and appoint four board members as well. Etihad was given the right to nominate vice-chairman of the board. The revised SHA also clarified that the initial proposal of all decisions to be taken by a three-fourths majority stood deleted and in its place, all decisions were proposed to be passed by a simple majority. This revision was in accordance with SEBI's stipulation that the Chairman of the board should have the right to take up any matter for the consideration of the board without seeking a three-fourth majority support for the same. Further, Mr Naresh Goyal, the founding Chairman of Jet was also vested with the right to exercise casting vote on all matters.[xx]

In addition to the revision in the shareholders' agreement, in its conditional approval the FIPB also mandated that the two airlines should amend the Articles of Association to synchronize them with the revised SHA. In an approval that was heavy with conditions, the FIPB made two clear stipulations stating that the Articles of Association should override the shareholders agreement and no changes should be made by Jet in the shareholders' agreement or shareholding pattern without prior approval of the government.

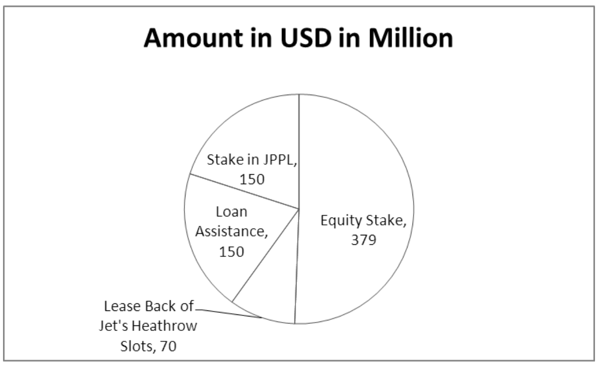
Further, FIPB also stated that all disputes related to the shareholders and the SHA would be adjudicated under the provisions of Indian Law and not the English Law as stated in the revised version of SHA submitted to FIPB. However, FIPB allowed all other arbitrations to take place under English law as proposed by the two airlines in the revised SHA.

Another hurdle that the deal faced before it got the FIPB approval was the objection raised by the civil aviation ministry of India to the commercial cooperation agreement (CCA) between the two airlines. The ministry's objection was against the proposal to shift the network-and revenue-management functions to Abu Dhabi after the closure of the deal. FIPB gave its approval only after the two airlines announced that Mumbai, India would continue to be the main place of Jet's business after the deal was completed.[xxi]

DEAL DETAILS

The Jet-Etihad strategic alliance constitutes the first and the largest foreign direct investment in Indian aviation industry so far. The deal between the two airlines was multi-dimensional and involved not only the picking of stake in Jet by Etihad but also investment of millions of dollars in Jet's frequent flyer programme and purchase of slots of Jet at London's Heathrow Airport. In addition to investing funds directly, Etihad also committed to help Jet raise debt funds from its bankers.

EXHIBIT 8: JET-ETIHAD DEAL DETAILS

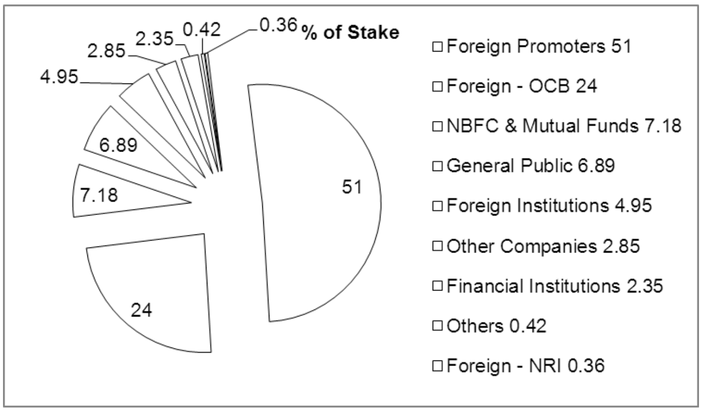


Source: Developed by case authors based on information available at www.business-standard.com/article/companies/etihad-may-bankroll-jet-airways-with-extra-300-million-infusion-114110801209_1.html, accessed on March 23, 2015.

The overall commitment by Eithad was split in following manner (exhibit 8)[xxii]:

a) USD379 million as equity investment through preferential allotment of shares to Etihad to give it a 24 per cent stake in Jet. The stake represents 27,263,372 new shares in Jet Airways at a price of INR754.74 per share (a 31 per cent premium). On the day of announcement, Jet Airways shares had shot up by 4.3 per cent to INR.305 rupees, still way below the INR754.74 a share committed by Etihad. Post deal shareholding pattern of Jet is displayed in exhibit 9.

EXHIBIT 9: POST JET-ETIHAD DEAL SHAREHOLDING PATTERN OF JET AIRWAYS



Source: Developed by case authors based on information available at Economic Times Market , Stock Price quote, www.economictimes.indiatimes.com/jet-airways-india-ltd/stocks/companyid-4374.cms, accessed April 30, 2015.

b) USD150 million by way of a majority equity investment (50.1 per cent stake) in Jet Airways' frequent flyer programme, 'Jet Privilege'. Jet's loyalty programme was hived off into a subsidiary, Jet Privilege Pvt. Ltd (JPPL) to facilitate the deal.
c) Assistance to Jet to raise loan for USD150 million at an interest rate of about three per cent. The loan was envisaged to help Jet refinance and reduce its existing debt liability taken at a higher rate of interest. At the time the deal was initiated, Jet carried an outstanding loan of about USD800 million (INR 43,400 million) on its books borrowed at 12 per cent rate of interest.
d) USD70 million for lease back of Jet's Heathrow slots.

FACTORS THAT CATALYZED THE DEAL[xxiii]

The deal was extremely crucial for both Jet and Etihad. Partnership with Etihad would ensure Jet Airways' survival and operational viability. For Etihad, the deal was another opportunity to pursue its goal of domination of global aviation industry and beat its competitors; the two other middle-eastern airlines -- Emirates and Qatar Airways that were pursuing a similar goal.

The deal was expected to bring benefits on the commercial side as well as cost savings for both carriers. As a build up towards the deal, the two airlines had been building a network to fly passengers from across India to Abu Dhabi, and then onward to about 130 international destinations that Etihad services by itself and about 470 other international destinations that Etihad served with its 47 other partners.

The two airlines entered the deal anticipating benefits both in terms of higher revenues and synergies in operations. Advantages were expected to accrue from improved sharing of codes, enhanced distribution and customer service, joint purchase of fuel, spares and stores, efficient and more cost effective administration, access to a bigger network aiding better routing and scheduling of flights, increased technological support and joint marketing efforts. As a bonus, cost savings and synergies were also expected to come from cost centres like training, product development and acquisition and maintenance of fleet.

The deal was also expected to enable the two airlines to reap the benefits of joint initiatives in training of pilots and other staff and the execution of loyalty programmes of the two airlines.

POST DEAL SCENARIO

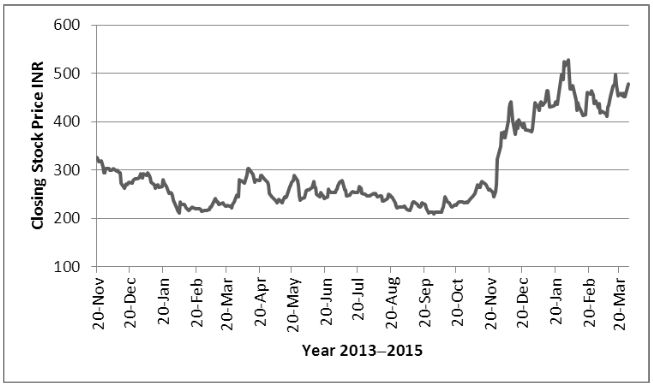
The post deal scenario has not been as rosy as it was anticipated to be while the deal was in progress. Admittedly, Jet is on a more firm ground now, both financially and operationally, but according to aviation experts, post-deal equity infusion and a revised network strategy would not be sufficient to boost Jet's financial results on their own.

In November 2014, a year after the deal with Etihad PJSC, Jet Airways reported a quarterly net profit of INR 700 million on stand-alone basis for the first time since the December quarter of 2012–2013. On consolidated basis too, it managed to narrow its losses by about 96 per cent to INR 430 million in the quarter ended on September 30, 2014 as against a net loss of INR9,990 million in the same quarter in 2013. The group's consolidated income rose by 13.7 per cent to INR50,920 million during the quarter. It had stood at INR44,800 million last year for the same quarter. Jet's stand-alone income increased to INR47,720 million, registering a growth of 16 per cent over the income of INR41,010 million generated in the corresponding quarter in the previous financial year. However, this sudden profitability of Jet in the quarter ended in September 2014 could be attributed more to the one-time inflow of INR3,050 million that had been generated from the sale of its loyalty programme to Etihad (a part of the deal agreement) rather than to any significant turnaround in the operations of Jet. Higher yields of up six per cent, lower costs down to five per cent and more efficient utilization of facilities also contributed to the improved profits. Further, a 15 per cent decrease in interest costs also boosted the year-on-year bottom line of Jet. In a significant development, Jet's revenue from its cargo operations increased to nearly 60 per cent of its consolidated revenue from international operations from a range of 55-56 per cent before alliance with Etihad.[xxiv]

After execution of the deal with Etihad PJSC in November 2013, Jet became financially more stable primarily by utilizing the inflow of INR20,580 million to pare down its debt by about INR16.000 million.[xxv] Jet was also able to put forth a plan to raise USD300 million through the ECB route in February 2014 and receive sanction of USD150 million from the West Asian banks. Jet had debt of INR 97.940 million as of the September 2014 quarter, 7 per cent less than the amount of INR 105,760 million as of March 2014. However, the equity funds infused by Etihad were used up within a year to repay debt and support operations that did not improve as anticipated and the ailing airlines required more capital infusion. With effect from January 8, 2015, the Chairman of Jet Airways pledged his shareholding (51 per cent) to the Punjab National Bank (PNB) in a bid to raise more capital for his company. At the time the pledge was made, his entire holding of 57,933,665 shares was valued at over INR26 million and it was pledged to the bank with a "non-disposal undertaking." [xxvi]

The Jet-Etihad deal was received with cautious optimism by the stock market. However, on the whole market has responded positively to the deal and the price of Jet's share has increased since the announced of the closure of the deal in November 2013, as shown in exhibit 10[xxvii].

EXHIBIT 10: STOCK PRICE OF JET AFTER THE CLOSURE OF JET-ETIHAD DEAL ON NOVEMBER 20, 2013



Source: Developed by case authors based on information available at BSE's website, www.bseindia.com/markets/equity/EQReports/StockPrcHistori.aspx?flag=0&expandable=7, accessed April 18, 2015.

From Etihad's perspective, though the value of its 24 per cent stake plunged about 70 per cent (calculated as on March 17, 2015 when Jet's share closed at INR478.9, way below INR754.74 per share that Etihad had paid for the stock at the time of execution of the deal) yet it seemed to have more from the partnership.[xxviii]

As of the first quarter of 2015, Etihad operated 7 daily flights from Mumbai, Delhi, Hyderabad and Bangalore to Abu Dhabi as against 5 by Jet. These flights were directly fed by about 70 Jet flights from across the country for which it had to do some reconfiguration in its Indian routes. Further, it was seen, as confirmed by various reports, that in spite of its more premium service, Etihad flights from India to Abu Dhabi were cheaper than Jet's flights on the same route. An instance much quoted in media is that of July 8, 2014, a date on which a Mumbai-Abu Dhabi economy return ticket bought for September 8, 2014 travel cost INR21,063 on Etihad and INR24,184 on Jet. Same differential was also observed for the Delhi-Abu Dhabi route.

Further, the waiting time for onward travel from Abu Dhabi was also lower for all seven Etihad flights from India, offering a connection time of two to three hours for 45 flights to major destinations like London, New York, Frankfurt, Berlin and Sydney. In the case of Jet flights, the waiting time for onward travel was as high as four hours and the number of connections was lower than Etihad at 24.

On the whole, after the deal, Jet seems to be losing its foothold in the international sector, which was its strong point even when its domestic operations running up massive losses. Travel agents also seem to be sensing Jet's weakening position on international routes and have shown some reluctance in accepting the target of 50 per cent higher international sales in 2015 set by the airline.

FUTURE PLANS AFTER THE DEAL

The Jet-Etihad strategic alliance is expected to benefit both airlines for many years to come. A key part of the deal is a gradual expansion of operations and introduction of new routes between India and Abu Dhabi. The two airlines also plan to combine their extensive network of 130 destinations to improve their operational effectiveness. Further Jet has planned to set up a Gulf gateway in Abu Dhabi to piggy back Etihad’s global network to expand its international presence[xxix]. The commercial cooperation agreement (CCA) signed between the two airlines includes a clause whereby Jet would endeavour to develop Etihad’s home base (Abu Dhabi) as an exclusive hub for its flights to the United Arab Emirates and the continents of North America, Africa and South America. This proposal is set to have an impact on the existing international operations of Jet from its hub in Brussels, Belgium[xxx].

The hub in Brussels will be impacted even more by the proposal to include Canada in the list of exclusive territories by amending the bilateral air services agreements. This would re-route Jet’s flights to Toronto via Abu Dhabi as against the arrangement before the deal where Jet operated its flights to New York and Toronto through its Brussels hub.

All in all, the two airlines plan to expand their reach and revenues by introducing newer routes and offering wider choice to their fliers, particularly for the India-Abu Dhabi sector.

EPILOGUE

The operating environment for the firms in the aviation sector in India continues to be tough and challenging. FDI by the global operators may provide lasting solution to the financial problems faced by the airlines in India but the road ahead for such deals is likely to be bumpy, as witnessed in the case of Jet Etihad strategic alliance.

With specific reference to Jet airways, post-deal improvement in profitability for the September 2014 quarter notwithstanding, it is felt that near-term profitability would continue to remain under stress and turnaround of Jet might take longer than expected. Financially in 2014, the bottom line remained stressed and operationally things continued to be difficult, as the operating environment continued to be difficult. In its attempt to come out of its dismal situation, Jet has put forth plans to become profitable by 2017 through a mix of debt restructuring, single brand strategy, sale of wide-body planes, improvements in products, capacity rationalization and international business expansion. Crystal ball gazers are not ready to commit how effective the plan would prove to be in the future.

DISCUSSION QUESTIONS

1. Discuss the circumstances in the aviation industry in India and the internal challenges that prompted Jet to approach Etihad to buy stake in Jet.
2. Explain the factors that could have propelled Etihad to seek a strategic alliance with Jet.
3. Briefly outline the expected strategic advantages of the deal to both the parties and comment on the success of the deal in the context of the post deal scenario.
4. Discuss the structure of the Jet-Etihad deal and its implications for both parties.
5. Trace the share price movement and analyze the response of the stock price of Jet shares to various milestones in its deal with Etihad.

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APPENDIX

APPENDIX 1: STATEMENT OF PROFIT & LOSS OF JET AIRWAYS FOR THE YEAR ENDED 31ST MARCH (AMOUNT IN INR MILLIONS) (2011–2015)

Particulars	**2015**	**2014**	**2013**	**2012**	**2011**
Income					
Revenue from Operations	195,734.30	173,018.90	168,525.90	148,159.10	127,367.60
Other Income	7,073.00	4,115.80	5,505.80	3,571.70	1,955.10
Total Revenue	**202,807.30**	**177,134.70**	**174,031.70**	**151,730.80**	**129,322.70**
Expenses					
Aircraft Fuel Expenses	66,862.60	71,754.20	69,920.00	66,306.70	43,667.00
Employee Benefit Expenses	22,430.00	18,995.90	15,442.40	15,994.90	13,396.90
Selling & Distribution Expenses	20,409.40	14,482.90	13,585.60	13,616.70	12,617.20
Aircraft Lease Rentals	19,589.20	16,761.00	12,321.00	9,060.00	8,443.60
Depreciation & Amortization	7,625.00	8,757.50	9,265.70	9,398.80	9,106.20
Finance Cost	8,840.60	9,971.60	11,189.80	9,712.30	11,197.10
Other Expenses	67,602.60	65,871.40	48,227.60	40,926.60	32,321.20
Total Expenses	**213,359.40**	**206,594.50**	**179,952.10**	**165,016.00**	**130,749.20**
(Loss) Before Exceptional Items and Tax	**(10,552.10)**	**(29,459.80)**	**(5,920.40)**	**(13,285.20)**	**(1,426.50)**
Exceptional Items (Net)	(7,585.00)	(7,219.90)	1,065.40	731.90	1,891.90
(Loss) / Profit Before Tax	(18,137.10)	(36,679.70)	(4,855.00)	(12,553.30)	465.40
Tax Expense					

Current Tax	-	-	-	-	206.20
Deferred Tax	-	-	-	(336.30)	336.30
MAT Credit Reversal / (Entitlement)	-	-	-	206.20	(206.20)
(Excess) / short Tax Provisions (Net) for earlier Years	-	(1.20)	-	(62.20)	32.20
(Loss) / Profit for the Year from Continuing operations	**(18,137.10)**	**(36,678.50)**	**(4,855.00)**	**(12,361.00)**	**96.90**
Earning Per Share: (FV INR 10 Per Share)	-153.66	-381.3	-56.23	-143.18	1.12

Source: Jet Airways Website "JetAR2011.pdf, AnnualReport2012-13.pdfAnnualReport2013-14.pdf, JetAnnualReport2014-15, accessed September 14, 2015.

APPENDIX 2: BALANCE SHEET OF JET AIRWAYS AS OF MARCH 31 (INR Millions) (2011–2015)

Particulars	**2015**	**2014**	**2013**	**2012**	**2011**
EQUITY AND LIABILITIES					
Shareholders' Funds					
Share Capital	1,136.00	1,136.00	863.30	863.30	863.30
Reserves and Surplus	(42,038.80)	(23,413.70)	(4,288.60)	12,354.70	25,180.10
	(40,902.80)	(22,277.70)	(3,425.30)	13,218.00	26,043.40
Non-Current Liabilities					
Long Term Borrowings	66,073.00	65,460.70	68,686.00	87,735.80	90,479.50
Deferred Tax Liabilities (Net)	-	-	-	-	336.30
Other Long Term Liabilities	11,484.10	3,650.00	3,650.00	4,223.90	304.10
Long Term Provisions	2,479.20	2,142.60	1,251.80	987.10	960.60
	80,036.30	71,253.30	73,587.80	92,946.80	92,080.50
Current Liabilities					
Short Term Borrowings	36,442.90	20,397.20	19,525.90	20,941.70	24,527.40
Trade Payables	54,278.20	48,404.60	46,917.70	31,851.80	20,900.40
Other Current Liabilities	58,113.70	64,518.50	49,888.10	50,443.30	42,413.80
Short Term Provisions	523.90	1,395.30	1,051.30	799.40	908.30

	149,358.70	134,715.60	117,383.00	104,036.20	88,749.90
Total	188,492.20	183,691.20	187,545.50	210,201.00	206,873.80
ASSETS					
Non-Current Assets					
Fixed Assets					
Tangible Assets	92,184.40	96,094.60	107,431.10	135,951.30	134,445.70
Intangible Assets	127.70	255.00	339.30	1,873.20	1,712.40
Capital Work-in-Progress	194.20	-	-	20.70	319.80
	92,506.30	96,349.60	107,770.40	137,845.20	136,477.90
Non-Current Investments	6,961.70	16,412.10	16,460.10	16,459.60	16,450.90
Long Term Loans and Advances	34,495.00	30,983.90	22,813.70	21,085.00	22,313.50
Other Non-Current Assets	-	-	-	706.00	-
	41,456.70	47,396.00	39,273.80	38,250.60	38,764.40
Current Assets					
Current Investments	-	-	-	-	800.00
Inventories	9,270.20	8,037.60	7,866.70	7,783.50	7,111.80
Trade Receivables	13,744.80	12,092.20	11,845.80	12,664.40	9,657.70
Cash and Bank Balances	20,686.00	11,454.10	8,370.70	4,978.80	5,877.10
Short Term Loans and Advances	10,828.20	8,361.70	12,418.10	7,975.10	8,184.90
Other Current Assets	-	-	-	703.40	-
	54,529.20	39,945.60	40,501.30	34,105.20	31,631.50
Total	188,492.20	183,691.20	187,545.50	210,201.00	206,873.80

Source: Jet Airways Website "JetAR2011.pdf, AnnualReport2012-13.pdfAnnualReport2013-14.pdf, JetAnnualReport2014-15, accessed September 14, 2015

APPENDIX 3: SNAPSHOT OF ETIHAD AIRWAY'S BUSINESS TRENDS (YEARS ENDING 31 DECEMBER):

	2007	2008	2009	2010	2011	2012	2013
Turnover (AEDb)	5.6	9.1	8.4	10.9	15	↓	
Turnover (USUSDb)					4.1	4.8	6.1
Profits* (EBIT) (USUSDm)	n/a	n/a	n/a	n/a	137	170	
Number of employees	5,563	7,058	7,828	7,855	9,038	10,656	13,535
Number of passengers (m)	4.6	6	6.3	7.1	8.3	10.2	11.5
Passenger load factor (%)	70	75	74	74	75.8	78.2	78
Cargo carried (000s tonnes)		202		263	310	368	486
Number of aircraft (at year end)	37	42	52	57	64	70	89

*Source: Aviation Pros "Etihad Airways Reports Traffic Results for 2008" January 6, 2009 airline industry information. www.aviationpros.com/news/10436697/etihad-airways-reports-traffic-results-for-2008 accessed July 1, 2015; Etihad website " Etihad airways reports traffic results for 008" review, www.etihadairways.com/sites/etihad/etihad%20images/resources/business-review-2010-en.pdf, accessed July 1, 2015; Etihad website "*Corporate facts and figures september 2009" *review, www.etihadairways.com/sites/etihad/etihad%20images/resources/business-review-2010-en.pdf, accessed July 1, 2015; Etihad website* "Business review 2010", *www.etihadairways.com/sites/etihad/etihad%20images/resources/business-review-2010-en.pdf, accessed July 1, 2015; Etihad website "Business review 2011", www.etihadairways.com/sites/etihad/etihad%20images/resources/business-review-2010-en.pdf, accessed July 1, 2015; Etihad website " "Etihad airways annual report 2012". www.etihadairways.com/sites/etihad/etihad%20images/resources/business-review-2010-en.pdf, accessed July 1, 2015.*