

## **December 15<sup>th</sup>- the day SpiceJet didn't fly and the story of its revival**

December 2014. By then, the Indian aviation sector had taken off and climbing, after many aborted attempts. Passenger traffic month on month was on an ascending trajectory. The ATF prices were low, reducing the cost of operations, giving the much needed financial relief to the "usually bleeding" airlines industry. And it was peak domestic holiday travel time of the year.

A new government under Narendra Modi had taken over 7 months back, surging on a promise of "Ache Din"- good days for everyone. Expectations from the government were large. Government, determined not to fitter away the mandate of hope, had initiated many industry and business friendly steps within the first 100 days of governance-- took elaborate steps to improve "the ease of doing business in India", scrapped many archaic laws, regulations and multitude of forms and returns to be filled up by the enterprises to do business in India. Modi had just completed his successful visit to US and was in the afterglow of the rock star like reception in Madison square.

But, trouble was silently lurking in one of the airlines in the high profile aviation sector. SpiceJet, a hugely popular low cost carrier, giving stiff competition to Indigo, the undisputed leader in the India skies, was flying under radar into a quirky rough weather. True, it had its 15 Q400s and 37 Boeing 737s flying to the full passenger capacity, riding on the wave of huge price cuts, flash sales and the peak Diwali holiday travel. Though the PLF was over 80%, the airline was facing a CASH crunch-a liquidity crisis- since August 2014. They were flirting closer to the boundaries of the credit limits of fuel bills, airport fees, lease payments to lessors of aircrafts, etc. Though they had managed to pay salaries to almost all operational employees for the month of November 2014, many pilots were leaving. 15 Boeing 737s were returned to the lessors and one Q400 was grounded due to maintenance issues resulting in cancellation of 1861 scheduled operations since August. DGCA had withdrawn 186 airport slots allocated to SpiceJet citing its non-operation. The proverbial last straw was the order on 5<sup>th</sup> December, 2014 of DGCA, the airline regulator, closing down the booking of passenger tickets in SpiceJet beyond 31 December, 2014. Stopping bookings is a big blow to any airlines, which normally manage many of the daily cash requirements from the liquidity realised from the daily sale of tickets. Stopping bookings in SpiceJet beyond 31<sup>st</sup> December, 2014, was like restraining and constricting the vital oxygen supply to an already gasping patient. The travel agents/portals deferred transferring of money of the booked tickets to the airline, anticipating refunds, in the event of cancellation of flights. This constricted cash inflow to the airlines. There were panic cancellations by passengers, which resulted in increased cash outflow. Oil companies and airports put them on cash and carry or having to pay each time the plane is refuelled or when it uses any of the airport facilities, which meant more cash outflow. In short, the airlines was entering a stall mode, due to severe liquidity crisis. Immediate liabilities like fuel charges, airport charges etc stood at Rs 1400 Crores and overall liabilities at Rs 2000 Crore. But they had an operational fleet of 22 Boeings 737s and 14 Q 400s and operation associated airport inventories and over 5000 dedicated staff, most of them fully paid upto November, with them.

It was about 930 AM on 15th December, 2014, when Mr Sanjiv Kapoor, the Spice Jet COO; and three other officials of the SpiceJet- Mr GPGupta, Mr Natarajan and Mr Palani- burst into the room of G.Asok Kumar, the Joint Secretary who was dealing with Domestic Transport (DT) division in the Ministry of Civil Aviation, at Rajiv Gandhi Bhawan, the abode of Ministry of Civil Aviation (MoCA). SpiceJet was owned by Mr Kalanidhi Maran who also owned the Sun TV Ltd and belonged to an important political family of Tamil Nadu. Asok Kumar had got back the charge of the DT division in the ministry on December 12<sup>th</sup>, 2015 after a brief hiatus of seven months, from another JS who was not generally regarded as industry friendly.

“We have difficulty in running the airlines due to severe cash crunch we are facing. If situation is not easing out immediately, we have no option but to close down the operations, they said” recalled Asok Kumar. This seemed to be a De-Javu for him, as he was in charge of DT division then also, when King Fisher airlines shut its operations in 2012. But, he was only a few months old in the ministry then. Wiser from the lessons learnt about the impact the closing down of an airline in the highly visible aviation sector will have on the image of the country, he did not want closure of another airlines during his tenure. He; known to be decisive and unhesitating to take quick, out-of-the-box and bold decisions; made them sit down and explain the situation in detail. They said that due to severe cash/ liquidity crunch, they are not able to buy fuel as the oil companies have refused to provide fuel beyond the already breached agreed credit limit, and many airport operators are not letting the aircrafts take off or land as their credit limits are also breached. They said that Mr Kalanidhi Maran, the owner/promoter of SpiceJet, is in no position to extend further funds to run the airlines, as he had already funded nearly Rs 800 crores in the last two months to keep the airlines afloat. In short, the airline did not have money to fund its operations. There was a panic situation in many airports due to sudden cancellation of many SpiceJet flights. Irate passengers were resorting to abuses and even physical violence against the SpiceJet staff at airports. SpiceJet officials requested immediate assistance from the ministry to tide over the crisis or they had no option but to close down the airlines.

The Joint Secretary, who incidentally, was also handling the Aviation Security division in the ministry, first called up CoSCA (Commissioner of Security Civil Aviation), to ascertain the situation at various airports. The crisis was at an initial stage and had not yet come to the notice of CoSCA. So far, so good. After quick, short discussions with the Spicejet officials, the critical issues- immediate, short term and long term-were identified.

"There were three critical issues which precipitated the crisis and these had to be addressed immediately to defuse the crisis:

"Stoppage of bookings beyond December 31, 2014 by the aviation regulator Directorate General of Civil Aviation (DGCA);

Refusal of Oil companies had to give fuel as the dues of airline had mounted over and above the bank guarantees provided;

Refusal of Airports Authority of India (AAI) to permit landing/take-off of SpiceJet flights till its dues was cleared." All these agencies had borne the brunt of the Kingfisher Airlines fiasco and preferred to save their skin than to help out.

JS then informed Mr V Somasundaran, Secretary, MoCA, and Mr Ashok Gajapathi Raju, Minister for Civil Aviation about the plight and request of the airlines. Both of them, respected widely for their strict adherence to the rule books, initially took the view that it was a matter of a private airline and “we cannot really do much about it.”

Mr Vijay Mallya's Kingfisher Airline had a disruptive shut down in 2012. Its closure resulted in nearly 10000 people losing their jobs; sat heavily on the Non-Performing Assets list of its lenders snow balling into a financial crisis in the banking sector. Aviation being a very high profile sector, any disruptions here attracts high optics. A medium scale railway accident in a state gets reported in the inner pages of newspapers, whereas a crash of even small aircrafts somewhere in another continent gets reported in the front pages of our newspapers. The closure of King Fisher airlines and the prolonged distress of its staff were widely reported not only in the international aviation magazines but also in international media dealing in financial and economic matters. Due to the very high profile, flashy and flamboyant nature of the owner of the King Fisher airlines, the general media also vied with one another to spin stories on its closure and keep the news alive for many years. The defaulting of Rs 7000 crores loan taken from Indian banks made King Fisher and its management the favourite target of all bashers of Indian economy and critics of the previous UPA regime. So nobody would want to do anything with another private airline!

In Kingfisher's case financial stress was palpable from August 2011 onwards. Mr Bharat Bhushan, the then DGCA, had taken cognisance of the employee unrest in King Fisher over the prolonged delay of their salaries and citing safety concerns had ordered detailed financial audit of King Fisher airlines in November/December 2011. The then Civil Aviation Secretary, Mr Nasim Zaidi (later India's Chief Election Commissioner) formed a Committee of Secretaries (CoS) under his chairmanship (with Mr DK Mittal Secretary, Ministry of Finance (Banking Services)-, Mr Saurabh Gupta, Secretary, Ministry of Petroleum and Natural Gases; Mr Anoop Poojari, Director General of Foreign Trade as members and Mr Asok Kumar, JS, MoCA- as Member Secretary), to study the factors causing stress on the country's civil aviation sector and recommend appropriate solutions.

The CoS held series of meetings in December 2011/January 2012 and in the last week of January 2012 sent its report to the Group of Ministers (GoM) headed by the then Finance Minister, Mr Pranab Mukharjee . (Mr Chidambaram, Home Minister; Mr Jaipal Reddy, Minister for Petroleum and Natural Gas; Mr Ajit Singh, Minister of Civil Aviation were members). GoM in its meeting on 7th February 2012 accepted the recommendation of the CoS and agreed to allow FDI by foreign airline upto 49% in any airline companies in Indian; to permit External Commercial Borrowings upto 1 Billion USDs to infuse working capital for airlines to reduce financial stress and to allow import of ATF by the user airlines directly. However, the final order from Department of Industrial Policy & Promotion (DIPP) which dealt with subject came only in September 2012 – after a delay of nearly six months. Asok Kumar believes that “If those decisions were implemented in time, Kingfisher would have survived under a new professional management, with the infusion of substantial working capital from any external sources. Mind you, the King Fisher airlines then also had solid brand value, smaller aircrafts connecting many small cities and good presence in the market”.

Meanwhile, reports of rising tension in the airports and SpiceJet staff getting manhandled at airports due to sudden cancellation of its flights started flashing on the TV news channels. It was peak December travel season and airports were brimming with passengers on holiday trips. Chaos were building up in major airports like Delhi, Mumbai, Chennai and Hyderabad and the top officials of Spicejet were sitting at the MoCA feeling helpless. JS spoke to AAI chairman, Mr RK Srivastava, who was also feeling the heat of the chaos in his airports, but made it clear that he would act only on instructions from the Ministry. The officials of the Ministry of Petroleum refused to

interfere with the commercial decisions of oil companies, citing the harassment they had undergone for giving fuel to the King fisher airlines beyond their credit limits. With all these inputs, the JS briefed the Secretary in detail, who still felt that it is a matter of private airlines and the ministry need not interfere. Nevertheless, he briefed the Minister over phone on the crisis. Parliament was in session and it would be very embarrassing for the government if the crisis was not handled properly. The minister's office got in touch with the office of the Finance Minister (FM), Mr Arun Jaitley for an appointment. Though FM was busy preparing for the day's parliament session, it was indicated that they can meet the FM at 10:30 AM in parliament.

Aviation minister asked the Secretary and JS to come to his room in parliament by 1015 AM. Initial deliberations of the Minister and Secretary hovered around the “hands off policy, as it was a matter relating to a private airlines”. At 1025 AM, message came that PM had called FM to discuss on some issue coming up in the parliament and hence FM would meet them at 1:30 PM only. On the drive back in the Secretary's car, JS briefed the Secretary his experiences in dealing with the closure of King Fisher airlines in 2012 and effect of its closure on the aviation sector. (Mr Raju had assumed charge as the minister in May 2014, the Secretary joined in September 2014 . Asok Kumar was the only JS level officer in the ministry who had the experience of having dealt with a similar crisis in the past.) This seemed to have helped the Secretary to appreciate the looming crisis in Spice Jet as an important issue of the sector and not merely as an issue of a private airline.

By now the Chief Secretaries of various states had started calling up the ministry citing chaos at the airports in their states. In airports at holiday destinations like Port Blair and Goa, the situation was threatening to go out of control, as there was no space to keep so many stranded passengers. DGCA was informed to instruct all other carriers to accommodate the passengers of the cancelled SpiceJet flights, to the extent possible. But due to the vacation crowd, most of their flights were also full. By 1145 AM, Mr Ajay Singh, who had started SpiceJet in 2005 and then sold it in 2010 to its present owners, came to the ministry and said that he did not want the airlines he had started a few years back to go the Kingfisher way and offered to do whatever possible to help the airlines from closing. He said, if needed, he would infuse the much needed liquidity upto Rs 1500 Crores to tide over the crisis and that he has already initiated discussions with many FIs for funds. But the ministry's immediate concern was to clear out the passengers stranded in the airports by requesting other airlines to accommodate the Spicejet passengers in their flights. In Parliament, MPs were meeting the aviation minister to apprise him of the situation in the airports of their states. As PS to the Minister was on leave, JS called up Mr Appa Rao, OSD to Minister and sought time to meet the Minister atleast half an hour before the meeting with FM. When JS met the Minister and his OSD at 1245 PM, he gave a brief description of the King Fisher crisis and how the delay in implementation of the decisions of CoS and GoM resulted in closing down of the airlines and the effect of its closure on the business-image of the country. He requested the minister not to treat the SpiceJet issue as an issue of just a private sector company but as a crisis of the sector that has a potential to cause a huge dent in the image of the country being projected by the new government. The new government was pushing an image makeover “to end policy paralysis” having launched a highly publicized drive “to improve the ease of doing business in the country” and had announced programs like Make in India etc. Civil Aviation being a highly visible and high profile sector, would attract lot of negative publicity if a major airline shuts down. Rounding up, the JS impressed upon the Minister the need to act and that too fast. He said that “if

oxygen is to be given to revive a patient, give oxygen when patient is gasping for breath but alive and not when it is dead. This was what happened with the King Fisher airlines". OSD also supported the view point of JS. Minister now saw the logic in the thinking of JS and could appreciate the need to help out the airlines out of the crisis, irrespective of its ownership profile. When the Secretary joined the minister at 1:15 PM, both of them had shed their initial reluctance to help a "private enterprise, but felt the need to step in and that too fast to help the civil aviation sector".

FM was still not available when aviation ministry officials reached his office in North Block at 1:30 PM. With no sight of the FM till 2:15 PM, the waiting aviation ministry team trooped into the room of the then Minister of State for Finance, Mr Jayant Sinha, who later became the Minister of state for Civil Aviation. He was given a briefing by JS. Minister of State for Science and Technology, Mr Y. Sujana Chowdary, - a very successful business man and from Aviation minister's political party TDP - who had also come to FM's office even suggested that Air India Ltd – the Government's airline- should take over SpiceJet by taking over the liability of Rs 2000 crore. In the backdrop of a botched and heavily criticised merger of Indian Airlines and Air India and the heavy liability burden already carried by Air India, this suggestion was immediately shot down. Mr Ajay Singh also showed up at the FM's office, saying he was ready to invest in the airlines to bail it out, by arranging funds from a bank in Hong Kong. Mr Ajay Singh, who is widely credited with the tag line "Ab ki bar, Modi Sarkar" which was very popular during the 2014 election campaign and believed to be close to FM was also making his own efforts to save "his baby". Mr Jayant Sinha called up some of his contacts in the Indian Office of the said bank, who confessed their ignorance on the offer of the bank to fund Mr Ajay Singh. Maybe he was dealing directly with its Corporate office in Hong Kong, they said.

After waiting for 2 hours, everyone returned without meeting the FM. It was 3:30 PM, there was still no clarity what will happen to the Gurgaon-based airline. Meanwhile back-room lobbying - very common with the airline industry - had started. Some rival airlines were pushing international aircraft lessors to deregister and take away SpiceJet's Boeing 737s taken on lease from them to choke SpiceJet. "Three-four times another low cost airline people met us asking when are you going to shut down Spice Jet?" an official in DGCA recollected. They were liberally dropping hints about the various clauses in the "Cape Town convention" relating to leasing of aircrafts to facilitate a quick decision by DGCA officials. Their lobbyists descended in hoards to DGCA to goad DGCA to take action against SpiceJet for the inconveniences caused to the passengers, though they were gladly accepting the passengers diverted from the cancelled Spicejet flights. It was reported that a Chennai-Mumbai ticket, normally costing around Rs 6000/-, was sold to a beleaguered Spice Jet passenger for Rs 52,000/-! Some experts expressed the fear of a monopolistic situation emerging in the sector, if SpiceJet closes down.

By now, the media was going berserk, showing visuals of unrest at SpiceJet counters at airports, interviews of harassed Spice Jet passengers who were venting out their frustration on the airline management and staff at the airport. Mr Mahesh Sharma, the more media savvy Minister of State for Civil Aviation was giving "sound bytes" on the "watch being kept by the ministry on the situation in the field and that government will take appropriate action at appropriate time", though nobody knew what was the action being taken. The media shy Senior Minister for Civil Aviation ducked the questions and kept away from the media.

With the experience of many of their colleagues having been charge sheeted or questioned by CBI etc for helping King Fisher, nobody in any of the Ministries was

willing to take a decision on their own to help SpiceJet. All wanted “instructions in writing from above.” Since no help was coming from either Ministry of Finance or Ministry of Petroleum, the onus was on the MoCA to take the lead. May be there was a nudge from the PMO. Anyway, after lot of deliberations, by 4 PM, it was decided that Minister for Civil Aviation would write a letter to Mr Jaipal Reddy, Minister of Petroleum and Natural Gases requesting him to ask oil companies to allow additional/extended credit facilities to the beleaguered carrier. He would also sent a note to DGCA and AAI under his ministry to help out the airlines, to the extent legally possible, in the interest of the civil aviation sector and the passengers who were holding confirmed Spicejet tickets to travel. The DGCA was asked to open up the booking window upto 31, March 2015 so that SpiceJet is not choked of its daily revenues. AAI was directed to permit landing and take offs from airports, subject to getting a written undertaking of deferred payment. Asok Kumar, the JS was asked to prepare these letters and get the signature of the minister. It was 5 PM when these letters were finalized, printed and signed by the minister. By then, MoCA was flooded with TV and press reporters, representatives of other airlines waiting in the wings to know the development, as it unfolded.

At about 5:10 PM, Mr Narayanan Chief Financial Officer (CFO) of the Sun group and representative of Mr Kalanidhi Maran along with some of the members of the Spicejet Board landed in the ministry and met the JS. With so much chaos at the airports, people shouting, abusing and even manhandling their staff staff at some airports and no financial solutions emerging, the management of Spicejet could not hold on any longer. They said they had no option but to announce at 6 PM the closure of SpiceJet airlines. JS apprised them about the letters from the minister to the various agencies and asked to hold on before making any formal announcement in the press.

Spicejet’s Pilots, crew and passengers were ready to fly. The immediate action needed need to diffuse crisis was to get fuel for the aircrafts. This required Oil Companies to extend the credit limit for which Ministry of Petroleum had to give a directive to the oil companies. All other issues were under the purview of the MoCA and were temporarily put on hold.

The letter from the minister for civil aviation reached the minister for petroleum by 5:15 PM. The staff of the MoPNG was getting ready to leave the office. Clearing the stranded passengers from airports was clearly not their priority. JS, MoCA phoned up Secretary and Joint Secretary, MoPNG to follow up the letter from the minister for civil aviation. They acknowledged the receipt of the letter, but said that were rushing out for a meeting of a parliamentary committee related to the ministry at 6 PM. They remained “out of range” for the next two and a half hours!

JS asked SpiceJet officials to make arrangement to mop up some money to buy fuel to fly. After intense persuasions, the oil companies relented to give fuel on cash and carry basis, agreeing not to insist on the payment of arrears as a precondition for the further sale of fuel. With fuel made available, on 16 December, 2014 early morning, SpiceJet re-started its operations hesitantly. “We told them to pick passengers from airports with huge passenger backlog. They mounted special flights to bring back passengers from Andaman and Goa.,” the JS said.

On December 16<sup>th</sup> at 7:50 PM Aviation ministry issued a formal press note on steps approved by the MoCA to help SpiceJet address its liquidity crisis. Besides easing payments on fuel cost, AAI charges and asking DGCA to open up Spicejet booking upto March 2015. Cancellation of 186 airport slots of Spice Jet by DGCA on 5<sup>th</sup> December, 2014 was put on hold till mid January 2015 by Secretary, MoCA on 26 December 2014.

By the end of December, 2014 Ajay Singh had come with a formal proposal to infuse liquidity into the operations of Spicejet by taking it over from Marans. But there was a regulatory hurdle. Under the provisions 10 (1) d(ii) of Regulation 10 of SEBI (Substantial Acquisition and Takeovers) Regulation 2011 , for any substantial acquisition and take-over of a company an open public offer has to be made first . But this could be waived off, if the concerned ministry so recommended. Opinion was taken by MoCA from legal luminaries, including a retired Judge of Supreme Court. After examining the legal advices given and taking the approval of the Minister; Secretary, MoCA as the competent authority issued a no objection certificate for the waiver of the public option clause, enabling Ajay Singh to acquire bulk shares from Mr Kalanidhi Maran and KAL airways. Ms Rubina Ali, Director, MoCA issued the letter on 16 January, 2015.

Mr Ajay Singh acquired 58.46 % share from Mr Maran and Maran owned KAL Airways Ltd in February 2015. He negotiated with aircraft lessors- Wilmington Trust SP Services, Babcock and Brown Aircraft Management and BBAM Aircraft Financing and Leasing Company and agreed for an out of court settlement. He cut down the number of employees per aircraft 140 in 2014 ( ie from 5500 to 3800 employees), took 3 aircrafts on wet lease from Czech airlines, strived to improve the On Time Performance of the airline. A detailed financial revival plan was already submitted to the Ministry on 11-1-2015. DGCA approved its Summer Schedule with 236 flights, down from 330 flights it was operating the previous year. Close monitoring and aggressive sales pitch saw its Plane Load Factor (PLF) in May June 2015 touching 93.19%. Luckily, the phenomenal dip in the cost of ATF helped to cut down the operation costs. Overall operation costs down by 42% in April-June 2015 quarter compared to same period in 2014. From losses of Rs 1003 Cr in 2013-14, SpiceJet on November 13, 2017 reported a profit of Rs 105.3 crore for the three months ended September 30<sup>th</sup> , 2017 as against Rs 58.9 crore in the same quarter in 2016, making it the 11th successive profitable quarter for the airline. The average load factor across the network was 93.1%. SpiceJet recorded more than 90% load factor for 30 successive months, a feat unparalleled globally. Significantly the quarter also marked the fifth consecutive month when the airline's domestic load factors have been in excess of 94%.

This the story of a successful story of a fairy tale turnaround of an airline on the tail winds provided by a bold and supportive bureaucracy, political will to ensure an industry friendly environment and end policy palaysis; a fortuitous crashing of global prices of crude oil and above all a committed management of the company headed by an efficient head, strategist CEO.