

# Morning Coffee with Mr. Sandeep Acharya

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*It's 8:18, and I'm precisely 18 minutes late—a triviality not lost on Mr. Sandeep Acharya. Though an aircraft maintenance engineer with Air India (formerly, Indian Airlines), he moonlights as a volunteer for just about everything, from spiritual organizations to help lines to RWAs. Little wonder then, that he leads a choc-a-block life.*

*I'd be lying if I said that I'm not more than slightly nervous as we sit down to talk about Air India, mergers and acquisitions, social responsibilities and the general health of the airline industry. Me, groggy eyed, and he, as alert as always. Both sipping our morning cuppas—tea for him, coffee for me. And, rather fittingly, watching airplanes from his balcony, as they make their final descent to the Indira Gandhi International Airport....*

**Ok, so now it's been almost one year, and the government, when they were merging Indian Airlines and Air India, they reassured everyone that it'll help both of the airlines. So, what exactly is happening now, is it helping any of them?**

Well, you see, the vision was quite good and appropriate, from an outside point of view. Both the airlines are national airlines, we have infrastructure which can be used by both, as it seems from the outside. We have maintenance facilities for aircraft; both Air India and Indian Airlines have their individual units. So, once you merge all that, you have the same facilities and all the aircraft can use it. But, in reality, what happens is that the facilities are so aircraft specific that you can't use the Indian Airlines facilities on an Air India aircraft and vice versa—the simple reason being that the sizes are so different. (*chuckling*) Like, if you want to get a 747 (owned by Air India) into any of our Indian Airlines hangars, it's impossible—it's as simple as that. If you park an A320 (owned by Indian Airlines) in a 747 hangar, the hangar just can't take a 747 in after that. So, you know, physical realities are a little different than what a merger can do. But yes, a tow truck, or something like a tow tractor for pushing the aircraft back, or man power, for offloading luggage and taking the trolleys inside the terminal building, or passenger security personnel, which have more or less the same function, those things are easy to merge, because functionally, they are the same, and they use a similar kind of infrastructure. And rightly so, talking of the merger as of now, they have only been able to merge these things to some extent, whereas the bigger things haven't gotten merged.

**Yeah, but then, merging all these tow tractors and security personnel and all, wouldn't that involve a lot of lay-offs and all also, while the government had said that there wouldn't be any lay-offs?**

Well you know, everybody talks about how many people you have to how many aircraft you operate, that is, human resource to the number of aircraft—that's the ratio which most airlines, you know, quote—that we have so many people for that many aircraft. And what has happened in time is that some of it is true, but a lot of it, again, you know....Suppose I start a new airline now; I wouldn't be hiring people to do everything. Like a car mechanic, how many would I hire? I don't think I would ever do that; I would outsource my whole fleet of cars to an outside agency, and have a kilometer rate with them. But, what we had initially—we had a garage, we had a mechanic, we did our own servicing of our cars, we bought our cars, we had drivers to run the cars—so we were into an entirely different business in so many ways. Our catering department used to cook food for thousands of people, because they thought that the

catering department is supposed to be making food for the passengers. It's only with time that we realized that there are other people to outsource it to, so that you don't really have to make the breakfast for the passengers in the morning, because we are in the business of running an airline, not catering. So, we kind of got branched out into too many things. If you really go by any airline which also adds what they've outsourced and the kind of human resource there, their numbers will be just as large. So, when we started outsourcing, then yes, we had some surplus. Like, for catering department, we had so many people, they had to be re-employed or re-deployed in other places. So, that has gone on for a while, and that juggling has happened, and things have settled, but yes, it still needs some more work to be done. But, we aren't awfully off target in terms of the kind of function we do, and the kind of people we hire.

**In the initial days of the merger, a major grouse amongst the Indian Airlines employees, according to the newspapers, was that the whole thing seemed like a hostile takeover-like Air India had simply gobbled up Indian Airlines. The newspapers were full of such articles. So, how far was that true?**

It's not true, because if you see Indian Airlines and Air India, when they merged, Indian Airlines was bigger in terms of fleet size, in terms of its capital outlay, in terms of employees and in terms of profits—we were making much more money than them. So, when two companies merge, generally, it's the bigger company which takes the smaller one. And, here we were bigger by all counts. But yes, what didn't happen, was our name remained Air India. So, there was this thing that probably Air India has taken over Indian Airlines. But, it's not true, because I don't think that that happened. It's a merger. It wasn't an acquisition of one company by another.

**But then, the top position was also taken over by V. Thulasidas, the chief of Air India before the merger...**

Uhm...well, for a while, yes. But then, that guy was senior to the Indian Airlines chief guy, and both were from the IAS. So, obviously, the way the government functions, the senior one amongst them got the top spot, and has since then retired, while the other person, who was our CMD then, has moved on to some other department. So, it was just the situation at that time, which prompted the Air India guy to take over. If we had a person who was retiring, it could have been different...

**Ok, so it was just because of the IAS seniority?**

Yeah, it was nothing to do with what airline what guy was from....And in the merger you know, it would have been good if they would have changed the name of the airline, made it Indian Air or Air Indian or something like that, where nobody felt they were being taken over. A name is a strong component and people associate with a name pretty strongly. So, that way, yes, in Indian Airlines we did feel a little cheated, because Air India had been our competitor for so long. Suddenly, to have their brand name, and to say that we were flying Air India aircraft....it took us a while to get used to it...in fact, Air India still doesn't come to my mouth very easily. But, yes, it was something we all had to deal with, and there was a good reason for it. The reason being that, they had so many of these international contracts the world over where the Air India name was there. Redoing so many contracts because of a name change wouldn't have been feasible, because once you change the name; the conditions of the contract could also change. And, that could have impacted Air India as a whole. So, it was decided that in India, changing the name to Air India, the cost was much less than changing it worldwide. That is why, it was decided to change to Air India, because it was a brand people could identify with, not that it was the best brand to identify with because the brand had, kind of, really become a flop show. And, it really needs a lot of shaping and shoving.

**Were there any union clashes or any union politics going on when these two merged?**

Whenever there's a merger, these things are a common part. I mean, people are always comfortable in the position they are in. No one wants to see any changes happening, because it can impact people directly. There was some talk that there could be lay-offs and things like that, which were put to rest. There were also fears of transfers, which were also put to rest. So, by and large, the things which were simmering were taken care of by the management. So, we didn't really have any major issues, because the actual merger was still pretty far away. But now, as the merger is coming closer, and we are trying very hard to make it one entity, there will be issues relating to positioning and seniority. And, those kinds of clashes are going to be major in the times to come.

**So, does that mean that the real clashes are about to come?**

I would feel so. Because, up till now, the cadres have not been merged. Like, security and security, when they are merged and Air India and Indian Airlines security becomes only Air India security, there will only be one head, so there will always be a struggle between the two heads of security. One level lower, again there will be a struggle. So, either we become that much big, and the base becomes that much bigger...So, I think it's a challenge which hasn't been touched upon as yet. It takes time for all that to happen. And, when it happens, anyone who's doing the merging process, is going to have a tough time on his hands. That's what I mean when I say that I see clashes coming up in the future. I think, the legal system will also be challenged- 'how did this happen?', and 'how that person has become more senior to me', these are natural processes for any change...

**In the past, Air India's major complaint used to be regarding their old, or rather, antique aircraft, which were blamed for its slipping brand value in the global market. But now, these new planes are coming in, and we still haven't seen any change for the better...**

Well, when you make a brand make-over, there are a lot of things which have to go with it. I'm giving you a small example-suppose you are running a taxi service with Ambassador cars, you can't go too far when you have competitors with modern cars on their fleets. Change the cars, and there are still things you need to change-like your seat covers, your drivers' attitude, your maintenance and upkeep of fleet, if you still have the same kind of attitude about maintaining things the way they are, or the way the service should be. It just has to be up on various different levels for that company to have a brand make-over. So, (*laughing*) if your Arun Taxi Service has to become Arun International Taxi Service, you have to do a lot to build that brand image. And, I don't see a lot of effort happening in that direction. Yes, you've got new aircraft, but we didn't do much in all the other areas, and that is why, we are still struggling.

**Is this merger actually hurting the company? NACIL, the merged entity, is now asking for a Rs 2000 crore bailout package from the government....**

The bailout package is now kind of spreading to other airlines as well-it's kind of becoming a global phenomenon. Fuel prices went overboard, the passenger traffic projections, which were in double digits, have shrunk to single digits, and still slipping. So, all the planning has taken a downslide, and that happens. The airline business is generally, an indicator of the state of the economy of any place. So, before the Sensex downslide, the passenger downslide had happened much earlier. And, if you look back in history, you'll find that it is always the case. Because, if lesser people travel, lesser contracts get signed, which means lesser business is happening, and that impact you'll find within six months in real terms, in terms of the Sensex coming down and things like that. So, it's just the state of the world economy which is hitting all of us, and I think all the private airlines have also gone asking the PM for a

bailout package. So, bailout is certainly required, because the industry is getting hurt by fuel prices and a whole lot of other issues which are bottoming out the reserves. It might really sink an airline or two in a short while.

**So, will lowering the astronomical taxes on the ATF (Aviation Turbine Fuel) help?**

That is true. If an airline makes profit, it can make huge profit in a very short time. If it loses money, it can really lose money very quickly. That is why, if you see a giant like Pan Am, for instance, it just got wiped out because of the losses. In what, six months or one year, they found that didn't have deep enough pockets to hold that airline up. So, when you lose in an airline, you lose very fast, and it almost comes to a point where you need to close. So, if you look at the complete expenditure structure, the largest chunk includes the fuel, your parking and landing charges and all the charges that are due to the airport authorities, with fuel being the biggest out of these. So, if fuel prices go up, it hurts all the other segments, and then things become a little tight in terms of operational costs and showing a better bottom line, that'll keep the company afloat. And, once you are in the red, as I told you earlier, you are always in deep red, it's never a *shade* of red. When you make money also, you wipe out everything very quickly. Yes, (lowering) ATF prices will help a large deal, but it's a little unfair when you look at global oil prices and the way things are going. It's a sensitive market, it keeps changing. But, in our country, unfortunately, ATF, or even other oil prices, though they are at a floating rate, but it takes a while to change, and we tend to pay pretty high taxes on ATF, which, at this point of time, it seems a little too high, and the airlines really can't afford so many taxes for long.

**But then, the taxes are something the government can handle, so...**

Well, I don't understand why the left hand has to feed the right hand, when you still have the same back pocket. So, if you are asking for a bailout, and you give that with one hand, and you are taking the taxes on fuel with the other hand, you might as well reduce the tax on fuel, and probably, that itself will be the bailout package for the airlines.

**So the ATF prices can impact so much that instead of the bailout package you'd advocate a cut in taxes?**

You have to understand that supposing an aircraft has to fly here to Madras. Our break even loads are say, 70%. So, 70% of the seats should have passengers in them. And, if our load is 75%, we have made money. If our load is 65%, we have made losses. It's as simple as that. The fuel burn is the same for that flight, the other costs related to the aircraft flying are the same. So, you know, it does make a huge difference, because if you can reduce prices to attract more people so that we have more air travelers going, then our loads will be higher than our break even loads, and we would certainly be doing much better, profit-wise, and it would take care of a lot of things.

**What about the cut-throat competition and all? I mean everyone's gone into a price war and there's a virtual blood bath going on out there. Like, on the Delhi-New York route, I believe your prices are so low that you're making a loss on every flight...**

See, we had only Air India as the international airline flying out of India, and we had certain routes and sectors which were going on for ages on end. We always had a Delhi-London-New York, which is AI-111. It's a very old flight. Everybody knows that it has been on this route for years and years. But now, with so many players in the market, the bipartite agreements with countries (which restrict the number of

flights into a country) have to now be shared between Air India and other players. Though in the domestic market it's a free sky policy, in the international routes, we still have to adhere to these agreements, because no country is going to allow a thousand flights into their country. I mean if you allow them ten flights into your country, they will give you ten flights into their country. So, when we are giving permission to other airlines to open up international flights, we must know that that constraint still remains. We have to share it (and make do) with what we have. If we allow different-different players to go on the same route, yes it has impacted Air India with the pricing and brand. I mean, when you are a new entrant into the market, you know that for the first two-three years, you aren't looking to make a profit. So you price your product as such. And these are highly perishable goods. I mean, if you don't have a passenger sitting on the seat when the door closes, that seat is as good as lost. So what do you do to fill up the seats? You bring the prices down. There are various mechanisms of doing it-either someone books his ticket six months ahead, or he books it at the last minute. So whichever way, whatever works, you do anything and everything to get the passengers in. But that doesn't necessarily mean that those airlines are making money. I mean, you look at the balance sheet of all airlines, it's fairly dismal, and Air India is no different.

**Does it show anything that even our Union Civil Aviation Minister, Praful Patel, prefers travelling by Jet and other private airlines?**

Well when you talk about free economy and a person having a choice, I don't see why a minister needs to be strait jacketed into using only a national carrier. I don't see him as an ambassador for Air India or Indian Airlines, as it used to be earlier. The Civil Aviation Minister, or rather, or all government officials used to use Air India or Indian Airlines. But, I think when things opened out for all of them, that the government agencies have been given a free hand, that whoever offers the cheapest air fare, you travel in that. And, that way, I don't think we've really done too badly. People talk about our market share having dropped. That may be true, but then you look at the way the market has grown, we don't have those many aircraft. But in terms of how many passengers we were carrying with whatever aircraft we had, those figures haven't changed very drastically really to give us such a scare. And so, we are doing ok. Atleast, Indian Airlines part of the bigger entity of Air India as we call it now. But yes, internationally if you see, Air India has not done, or has not been doing well in the past, and that has continued. So, when you kind of add up A and B, it doesn't look very pretty.

**No, but then, to the general public, it's like that 'when even the Civil Aviation Minister doesn't trust this airline, then why should we fly it?'....**

That's not true. I've seen him fly Indian Airlines also many times. It's not that he's always flying Jet or anything like that. I guess he also has to show that he's the Civil Aviation Minister for the whole industry, not just the Civil Aviation Minister for Indian Airlines or Air India. I think it's well within his rights to fly whichever airline he chooses to fly, and I don't think that that is an index or an indicator for all the other passengers. He...he can't be our mascot for improving our load factor.

**Ok...and I've heard that there are a lot of 'illogical' routes and timings and all. Routes added just for public service where you continue to make losses...**

Well you see, public service is something which was there in our charter when the airline started up way back in the '50s. That still can't change because we still need to have that connection. Supposing, state capitals-if we don't have that connection in states like Tripura. If Agartala is not connected to the rest of India, it would probably go off our map, and it's an important aspect to keep alive. And those responsibilities are still with our airline, because it comes from the Ministry that we have to maintain

those connections. Other airlines will fly on that route only for profitability, but we aren't given that free reign. And, I feel proud about the fact that, yes, even if we lose money on these things, it's good to maintain it. And there are other things. Like, we have our jawans who die fighting on the border. A lot of these airlines don't even bother to carry our martyrs back. And Indian Airlines-Air India has always done it proudly. We carry stretchers on our aircraft, even losing passenger seats to carry our jawans to Delhi for better medical facilities. We've done a whole lot of these humanitarian deeds. It needs a lot of money and the other newer airlines just can't afford it, or aren't inclined to do such things and such services, but it's not in their charter. But we have other social issues which we have to keep alive, and I'm happy that we do...

**Yes, but then that charter was instated so many years ago, when you had a monopoly over the sky. Now you don't have that monopoly, and you need to compete with everyone else. So, why not level the playing field and make everyone responsible for such services?**

You can't make someone responsible for something they don't want to take responsibility for. I'll give you a small example-when the President of the United States, I think it was Bush, came to India, they had a huge contingent going to Jaipur. The airline, I wouldn't like to name that airline, which carried the whole contingent, refused to carry dogs, because they don't carry dogs in their aircraft. That wasn't a part of their deal, so they said sorry we can't carry the dogs. So, they (the Americans) were surprised because they had some sniffer dogs come in from the US, and they had to carry them. So, they approached Indian Airlines, and we happily carried them, knowing full well that they didn't take their contingent with us. But you know, there is a bigger issue here. Suppose all airlines say no to the dogs, you have an issue with that country. There are much larger issues at stake than just running an airline. Sometimes, there are all these other things as well, and that is where the Ministry's control over the airline helps them to balance the much larger picture.

**So what's next? What lies in the future for this airline? What do you see happening, any positive changes being brought about at the ground level?**

Being in the airline business, and looking at what has been happening in the industry, I never believe that there is an endless dark cloud. It'll all break out into sunshine at some point of time, and I hope for the same, because all of us have been working very hard towards the same, and there is a concern amongst all of us to make this a frontier airline, keeping all the national interests alive, like whatever I've told you. So, I think in the times to come-it'll take a while, because any change goes through a little bit of a struggle in the starting. But I'm sure we'll do well in the future and people will look up to our airline as an airline they can always trust.

**No, but have any concrete steps been put into place to achieve the same? Something different from the past, which is being done now...?**

Well, one of the things is that we'll really become huge as an airline. India has never seen, will never see such a big airline for some time to come, in terms of size and numbers, once the merger really goes through. And then, we've also applied to be a member of the Star Alliance. That'll be a big benefit for all the members. Once you become a member of the Star Alliance, you can jump from airline to airline-if you are caught up somewhere, the aircraft isn't available, you've come to the airport early and want to take an earlier flight on another airline-all those possibilities will be open, and there is serious work going on in that direction. I think in a year or two, everyone will stand to gain.

**But then, your size, which you just talked about, can also turn out to be a really big liability, just extra flab you carry around...**

But then, the size also gives you the flexibility. Like, if you need a bigger aircraft to go on a certain route and you have that aircraft, you can. Plus, we don't have to compete with each-other. It was a big competition. I mean, if you look at our sectors in the Middle East and South East Asia, we used to have flights within half an hour of each other. Basically, it was that sense of competition which made us take those time slots. That would probably end. If we are apart by six or eight hours, it helps everyone. So, you know there are things that help you. There are disadvantages when you go into the scale of economics, there are problems at both ends-if you're too small, you have troubles, if you're too big, there are other troubles-but then the whole thing is how to fine tune it and make it work for you...