Little elbow room for premium carriers in low-fare focused India

REUTERS, Singapore/New Delhi

A decade after low-cost carriers led India's air travel boom, full-service airlines are gearing up for a battle for premium passengers that only the deep-pocketed are likely to win.

Flag carrier Air India, which has only offered premium travel, will face more competition from second-largest airline Jet Airways, which on Monday said it would ditch its budget unit and focus on the full-service market amid mounting losses.

The carriers are also bracing for Vistara, a venture between Singapore Airlines Ltd (SIAL.SI: Quote, Profile, Research) and conglomerate Tata Sons Ltd which will start flying in October.

The competition in the full-service sector is heating up with no guarantees there will be enough passengers willing to pay higher prices to sustain three carriers in a market where low-fares dominate and where airlines struggle to make a profit.

"There will be a bloodbath. The competition is only going to become more intense," said Amber Dubey, head of Aerospace and Defense at consultancy KPMG.

A large, and increasingly affluent, population make India one of the world's most attractive air travel markets. Passenger numbers have risen 13 percent a year since 2003, a rate analysts say outpaces most other markets.

But intense competition and higher operating costs mean Indian airlines lost a combined $1.77 billion last year and are projected to lose up to $1.4 billion this year, according to data from industry consultancy Centre for Aviation (CAPA).

That compares with the $18 billion profit airlines globally are expected to make this year, up from last year's $10.3 billion, International Air Transport Association data shows.

Low-cost carriers like Indigo, SpiceJet and GoAir have cornered two thirds of the domestic market, and were joined this year by a joint venture between Malaysia's AirAsia Bhd and Tata Sons Ltd.

Full-service carriers compete for the remainder one-third domestically, and with foreign carriers like Emirates, Qatar Airways, British Airways, Singapore Airlines (SIA) and Lufthansa on international routes.

Increasingly, they must also battle each other.

REUTERS

An aircraft flies past construction workers at the site of a metro station in the southern Indian city of Chennai.

"There is demand at the upper end in India but it is nothing like the demand at the bottom end," said Kapil Kaul, chief executive for South Asia at CAPA. "You now have three airlines competing for the same customer."

Air India is the most unprofitable carrier, but is also the one most likely to survive the battle for passengers because of government support. The carrier, which received a $5.8 billion state bail-out in 2012, halved its operating losses in the 2013-2014 fiscal year to 21.2 billion rupees ($353 million) by restructuring its operations over several years and cutting costs.

It retired older aircraft and introduced fuel-efficient planes such as the Boeing 787, and plans to add new Airbus A320s and Boeing 737s.

Air India also finally joined the Star Alliance group of carriers this year, allowing it to leverage the network of, and traffic feed from, partners such as Lufthansa, United Airlines and All Nippon Airways.

"The Indian government owns us. Just like any other promoter, they will pump money into their investment," said a senior Air India executive who did not want to be named as he was not authorised to speak to the media.

"Do you think the government will allow us to fail after investing so much money?" he added.

Jet Airways, which has yet to turn a profit since 2007, said it would focus solely on full-service to gain market share. It barely survived a battle with Kingfisher Airlines, which folded in 2012, and its balance sheet is shored up by Abu Dhabi's Etihad Airways, which bought a 24 percent stake this year.

"It is impossible to keep a foot in both markets when there are strong competitors on both ends," said a Jet executive who declined to be named as he was not authorised to speak to the media.

Etihad offers Jet an extensive international network via Abu Dhabi. Jet will receive its first 787s from 2015 and is likely to order new 737s to replace its existing ones. It aims to return to profitability by 2017.

Executives at the SIA-Tata venture Vistara say the full-service airline is focusing on a "neglected" sector in India. Growth, however, has been faster at the low-cost segment compared to full service airlines and government policies to build airports in less-developed cities, where passengers tend to be more price-conscious, will favour budget carriers.

CAPA data shows that compounded annual passenger numbers were up 30.9 percent at IndiGo, 20.6 percent SpiceJet and 19.5 percent at GoAir between 2008 and this year, outpacing the single-digit growth at Jet and Air India. The intense competition across all sectors will likely result in fewer airlines in India, analysts say.

"We expect consolidation over the next 12-18 months. At the current level of air travel penetration, the Indian market can only support at the most four strong pan-Indian airlines," KPMG's Dubey said.

BMW's Chinese dealers fined over price-fixing

AFP, Beijing

Four Chinese dealers for German auto maker BMW have been fined about 1.6 million yuan ($260,000), authorities have said, as the government steps up a high-profile anti-monopoly campaign involving a number of foreign brands.

The dealers in Wuhan in the central province of Hubei have been ordered to pay the penalties for "forming a price alliance", provincial authorities said in a statement Wednesday.

They agreed to consistently charge a fee for the pre-delivery inspection of cars, which falls under "the obligations and responsibilities" of the auto maker and its dealers, according to the statement.

"This is price swindling behaviour and must be resolutely stopped immediately," the authorities added.

The dealers were each fined between 150,000 yuan and nearly 940,000 yuan.

China has in recent months launched high-profile probes into alleged violations by a host of foreign firms in a range of different sectors including pharmaceuticals, technology and baby milk, raising fears that overseas companies are being targeted.

China's Ministry of Commerce on Saturday released a statement emphasising that the country's six-year-old Anti-Monopoly Law does not discriminate between foreign and domestic companies.

The European Union Chamber of Commerce in China expressed concern in a statement Wednesday that European businesses were "increasingly considering the question of whether foreign companies are being disproportionately targeted".

Auto firms are the latest to be investigated, and last week the government pledged to sanction Audi, owned by Volkswagen, and Chrysler of the US, now part of Italy's Fiat group, without stating what penalties they would receive.

On Monday, Audi announced it will accept punishment for breaching Chinese anti-monopoly laws.

The Hubei authorities also said in the statement that they were working on the penalties to be meted out to manufacturers and dealers of other auto brands including Audi.

Several car companies have announced price cuts in response to the inquiries.

Beijing considers using a dominant market position to set prices as a form of monopoly. Violators' "illegal gains" can be confiscated, and they can be fined up to 10 percent of their sales revenues from the previous year.

Jailed Indian tycoon gets more time to sell luxury hotels

AFP/FILE

Chairman of India's Sahara Group Subrata Roy gestures as he addresses a press conference in Kolkata on November 29, 2013.

AFP, New Delhi

India's Supreme Court on Thursday gave jailed tycoon Subrata Roy extra time to keep negotiating the sale of three luxury foreign hotels to raise $1.6 billion bail after his lawyers said he was close to a deal.

The court gave the founder of the Sahara media-to-finance empire 15 more "working days" -- on top of 10 days given him in early August -- to use a special conference room at New Delhi's sprawling Tihar Jail complex to sell the properties, which include New York's iconic Plaza Hotel and London's Grosvenor House.

The flamboyant businessman, who began negotiating with potential buyers on August 5, needs to raise the 100-billion-rupee ($1.6-billion) bail set by the court to obtain his freedom.

The Supreme Court jailed Roy, known for his rags-to-riches story and mansion modelled on the US White House, in March after he missed a court appearance in a long-running row with security regulators.

Roy's lawyer, S Ganesh, told the court talks to sell the Plaza and Grosvenor House, along with the Dream Downtown hotel in New York, "are at an advanced stage". "Only the agreements for sale have to be signed," Ganesh said.

Justice TS Thakur, heading a three-man Supreme Court bench, warned Roy this was the only extension that the court would give.

The three hotels are valued at a total of around $1.6 billion, according to a valuation cited by the Supreme Court.

Ganesh said it now appeared Roy would get nearly 50 percent more money than he had originally anticipated for the hotels, which the businessman bought to build a luxury accommodation portfolio.

The clock starts ticking on Roy's 15-day extension next Tuesday.

Media reports say Indian pharmaceutical billionaire Cyrus Poonawalla and US-based Madison Capital Holdings may be interested in the properties.

The Supreme Court bench has allowed Roy and two jailed company directors access to three secretaries, video-conferencing and computers to facilitate sale negotiations.

The three men are sleeping at the conference facilities and are allowed to work from six in the morning until eight at night to allow for international time differences.

Sahara raised 200 billion rupees ($3.2 billion) from millions of small savers through an illegal bond scheme.

Regulators ordered the group to pay the money back -- even though the Supreme Court said there were "serious doubts about the existence" of the investors, fuelling long-running allegations of money-laundering.

Wal-Mart profit pressured by flat US same-store sales

AFP, Washington

Wal-Mart Stores on Thursday posted a slight profit rise for its fiscal second quarter, as the world's largest retailer struggles with weak US same-store sales.

Comparable-store sales in the United States, Wal-Mart's largest market that includes its Walmart brand and Sam's Club stores, were flat, in line with the company's forecast.

Net income for the quarter ended July 31 was $4.09 billion, up 0.6 percent from a year ago. Adjusted earnings per share were $1.21, matching Wall Street estimates.

Revenue beat expectations, rising 2.8 percent year-over-year to $119.33 billion.

Wal-Mart lowered its 2014 earnings forecast to earnings per share between $4.90 and $5.15, from the prior estimate of $5.10-5.45, citing investments in e-commerce and higher US health care costs than previously anticipated.

Doug McMillon, Wal-Mart's president and chief executive, said the company had clocked up encouraging performances in its international business, its new smaller-sized Neighborhood Market stores in the US and in e-commerce.

"We wanted to see stronger comps in Walmart US and Sam's Club, but both reported flat comp sales. Stronger sales in the US businesses would've also helped our profit performance."

Shares in Dow component Wal-Mart were down 0.1 percent at $73.93 in pre-market trade on the New York Stock Exchange.

Eurozone economy stalls on setback in Germany

AFP

A farmer in a tractor piles up hay bales on a field in Gleidingen near Hanover, Germany. The German economy stalled in the second quarter, hit by weak exports and investment and fallout from the Ukraine crisis.

AFP, Brussels

Growth in the 18-country eurozone ground to a standstill in the second quarter, official data showed Thursday, dragged down by France and Germany and casting a cloud over recovery in the crisis-battered region.

Stagnation in the currency bloc, already threatened by deflation, fell short of analysts' forecast of 0.2 percent.

The figures will force governments to cut back their growth estimates for the rest of the year, putting budget deficit targets into jeopardy, and also clouding the outlook for growth of the global economy.

The unexpectedly low growth figure was mainly the result of a surprise 0.2-percent shrinkage in Germany, usually the reliable eurozone growth engine, and stagnation in an already fragile French economy.

"Strong growth figures in some of the former crisis countries and small Eastern member states were not enough to offset the slowdown in Germany ... hit by the 'Putin factor' as well as the reform laggards France and Italy," said Christian Schulz, economist at Berenberg Bank.

Italy has already reported contraction of 0.2 percent for the quarter, while Spain, in need of a boom after years of deep crisis, disappointed somewhat with growth of 0.6 percent.

Analysts expected that growth would accelerate later in the year, but with geopolitical tensions in Ukraine -- the so-called Putin factor -- enduring, there is now deep concern that a fragile recovery in the eurozone may be in danger.

"It now looks very likely that GDP (gross domestic product) growth for the whole of 2014 will remain below 1.0 percent," said analyst Peter Vanden Houte of ING Bank.

France, showed zero growth for the second quarter running, forcing the government to downgrade its outlook for the year by half on Thursday, to 0.5 percent instead of 1.0 percent.

French Finance Minister Michel Sapin said that "growth has broken down, in Europe and in France".

And he admitted that France would now overshoot its promise to the EU that its public deficit would be cut to 3.8 percent of output in 2014.

Analysts have warned for months that France, with the second-biggest economy in the eurozone, looks increasingly the weak link in a halting European recovery, as the government struggles in its efforts to push through reforms.

The strongest quarterly growth across the EU occurred mainly in the east, with Latvia showing growth of a full percentage point for the quarter and Hungary growing by 0.8 percent.

Britain, outside the eurozone where the central bank has enacted years of highly accommodative monetary policy, also expanded by 0.8 percent over the quarter.

Germany, at least, economists were confident that the second-quarter contraction would prove short-lived.

"The second-quarter setback reflects a combination of technical factors and external weakness, but not fundamental problems in the economy," Schulz said.

"Put simply, the first-quarter figure probably overstated underlying growth a bit, while the second-quarter decline understates it," he said.

The other cloud looming over the eurozone is low inflation, which Eurostat on Thursday confirmed slowed to 0.4 percent in July, the lowest level since late 2009 and way off the ECB's target of just under 2.0 percent.

Falling prices are raising concerns that the bloc may be entering a dangerous spiral of low growth and low demand that plagued Japan for a generation.

"In Japan in the 1990's, everything began with a financial crisis," economist Alexandre Delaigue of St. Cyr University outside Paris said.

"Then the country went into low inflation or deflation, sometimes a little growth, sometimes none, followed by accumulated deficits and a monetary policy that encouraged the status quo," he said.

On Thursday, the European Central Bank, which has been under immense pressure to engage looser monetary policy, suggested such fears are unwarranted.

In its latest survey, the ECB found that "a number of respondents argued that the trough of inflation has more or less been reached."

In Brussels, the European Trade Union Confederation said that austerity policies enacted across the eurozone were to blame for low growth.