



The Leading Edge

Other Airlines

- Holding off expansion
- Trimming staff
- Use large jets

Paramount Airways

- Has ordered more aircraft
- Hiring people
- Uses small jets

GIRISH G.V.

No Turbulence

M. Thiagarajan is a contrarian who is expanding his fleet and adding destinations as bigger rivals do the reverse. Has Paramount Airways' growth reached its limit? **K.R. BALASUBRAMANYAM**

Plug. And profit. That's what the young M. Thiagarajan decided to do when he expanded his childhood passion of flying into a scheduled airline. He figured that any airline that could plug the gap between the markets served by small turboprop aircraft and the large Boeings and Airbuses stood to gain.

He chose the Brazilian Embraer jets, unknown here at that time, and became the youngest CEO of a scheduled airline at age 27, in 2005. He continued to baffle rivals with initiatives that look equally strange but are money-spinners. (It is easier to fill up the 80-odd seats in the Embraer, and they are cheaper to operate.)

Result: his Paramount Airways has been making profits and gaining market share, and doing so even in today's recession. Recently, in June, when many airlines were putting off aircraft orders, Thiagarajan signed a \$1.5-billion deal with Airbus Industrie for 10 A321 aircraft with an option for another 10, to fly to the Gulf, South East Asia and Africa by next year.

Clearly, this MBA from Thiagarajar School of Management, Madurai, wants profits, not glamour. His business philosophy: "The top line is vanity, the bottom line adds to sanity, and cash flow is the reality."

So, how has Paramount tackled problems like having to fly with empty seats, paying high landing and parking fees at airports and getting gutted by soaring fuel costs and taxes?

Yehi Hai Right Choice!

So far, Paramount has invested \$100 million (Rs 500 crore), buying five Embraer E170/175s and touching 16 destinations, mostly in the south. The Brazilian jet can fly as far as the much larger Boeing 737 or the Airbus 320—and achieves break-even loads more easily. "The airline's operating performance has improved over the last few months and that is a good sign," says Kapil Kaul, CEO (South Asia) of the Centre for Asia Pacific Aviation (CAPA), a consultancy firm.

Also, airports don't levy landing and parking fees on smaller aircraft like the Embraer. On the other hand, each time an Airbus or Boeing lands at, say, Bangalore International Airport, it pays about Rs 15,000 as landing charge and about Rs 33,000 per hour as parking fee.

Then, smaller jets have to pay only 4 per cent as sales tax on fuel as against 28-33 per cent levied on bigger aircraft.

The gains: margins and market share. In the three months since April 2009, Paramount carried around 76,000 passengers a month at a passenger load factor (PLF) of above 88 per cent. The June PLF for behemoth Air India was 67.9 per cent and that of private major Jet Airways 67.8 per cent. The closest rival: GoAir with 85.1 per cent. (Fleet size is a big factor in PLF, so the figures are strictly not comparable.)

Paramount claims dominance over rivals in the south with a 27 per cent market share (at the national level this is a little over 2 per cent).

"When you have the right capacity, there is no pressure to dilute the yield," says Thiagarajan.

Market Share and Seat Factor for June 2009

Passengers (in lakh)	PLF (%)	Share (%)
Air India	67.9	17.5
Jet Airways	67.8	16.6
JetLite	74.4	7.3
Kingfisher	72	24.4
SpiceJet	77.3	12.8
Paramount	88.2	2
GoAir	85.1	5.4
IndiGo	81.6	13.6
MDLR	93.1	0.35

PLF: Passenger Load Factor Source DGCA

With just one per cent of capacity, Paramount has 2 per cent of market share.

Flight Plan

- **Goal:** Be a Pan-India airline by 2011
- **To hire:** 1,000-plus by March next year
- **To invest:** \$2.5-3 billion (Rs 12,500-13,000 crore) in 3-4 years
- **Destinations targeted:** SE Asia, Africa & Gulf cities
- **Launch:** First International flight in Jan.-March 2011



Done That

- Invested so far \$100 million (Rs 500 crore)
- Flies to 16 domestic destinations mostly in the south
- Passengers flown in June 73,000
- Has 700 employees, five aircraft
- Buying 10 Airbus A321 aircraft, with option for another 10

happy running his airline from Madurai in Tamil Nadu, home to his textiles business. But the young MD is tightlipped about his airline's finances: "Are people really bothered about what I do with my money?" Paramount, he says, has been profitable from around the 10th month of launch and has reported a healthy growth in turnover and net profit since then.

Recession? Buy & Grow!

Thiagarajan, who plays Carnatic classical music on the violin occasionally on weekends, is proud about Paramount's recession-year performance. "We are the only airline growing and hiring people today. While every other airline was reducing frequencies and cutting capacities, we expanded ... It's our plan to make Paramount a pan-India airline by the end of 2011," he says.

The industry is also abuzz with talk that Thiagarajan got a great bargain from Airbus. "Recession is the time you need to plan for growth and reap the benefits during the boom," he says. Many corporate travellers, he claims, migrated to Paramount when companies restricted business-class travel to save costs. But his airline provided business class at economy fares.

"With just one per cent of capacity, he is managing 2.2 per cent of national market share. This means he has been attracting more passengers than the others and achieving a near fill of his aircraft," reckons Mahantesh Sabarad, Senior Analyst, Centrum Broking, Mumbai.

But Sabarad does not think that the Paramount model has any demand beyond perhaps 1.5-2 lakh passengers a month. Kaul of CAPA says the good thing about Paramount is that it has remained small and has a conservative growth plan. "However, this distinct model is workable as long you keep it small. The airline's business model is not relevant from a medium-term or long-term perspective," he says.

More Profit Centres

Over the next three-four years, Thiagarajan proposes to invest \$2.5-3 billion (Rs 12,500-13,000 crore) in the airline and Rs 150 crore in an MRO or maintenance, repair and overhaul project. Often, commercial jets are taken to workshops as far away as Finland and Portugal for the superior C and D checks. "The first challenge is to equip the MRO in such a way that even C and D checks can be undertaken here," says Thiagarajan.

Then, there is Paramount Cargo, launched in February, in which he has invested Rs 50 crore. Thiagarajan claims Paramount has been able to fill 75 per cent of its total belly space of 100 tonnes so far, going for time-sensitive niche cargo rather than bulk to get a higher yield. "We are focussing on aquaculture, floriculture, medicines, and we provide the fastest delivery," he says. India's air-cargo traffic is expected to grow at over 11.4 per cent a year.

Thiagarajan, who has been flying since his college days and bought a six-seater Cessna in 2004, is not hungry for outside capital or a capital-market debut even though Paramount has been on the radar of private-equity players. Instead, the Thiagarajan family, which controls 95 per cent of the equity, is trying to buy out the five per cent held by Bennett Coleman & Co. Ltd. and Kotak Mahindra.

His skills, however, will be fully tested once he enters international routes. CAPA's Kaul feels the lack of management capital will play out as the airline expands. "Planned expansion will require huge funding, especially funding pre-delivery payments, and the first two to three years of international operations will be a huge risk," he says.

Thiagarajan chuckles at these concerns. He can afford to: after all, his model is doing fine in the downturn. And he has his fans and seems quite content. ☺

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