

ANALYSIS: Jet stake buy will improve Etihad's foothold in India

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Source:  Pro

[Etihad Airways'](#) purchase of a stake in India's [Jet Airways](#) will give it even greater exposure to the growing Indian travel market and is likely to propel both carriers forward over the coming years.

Following months of speculation, the deal was announced on 24 April, and will lead to Etihad taking up a 24% stake in Jet, with the two carriers expected to announce a wide-ranging alliance soon.

Etihad also held discussions with grounded carrier Kingfisher in the lead-up to the Jet announcement but broke them off in late 2012.

Deven Choksey, managing director of brokerage firm KRChoksey, says that analysis by his company last year showed that Jet was always going to be better proposition for Etihad for a number of reasons, despite the seeming lure of a low acquisition price and greater management control at Kingfisher.

"Jet is better placed in all aspects whether it comes to geographic reach, balance sheet, profitability, and payback period," he says.

The alliance will significantly strengthen Jet, which has been a long-time player in the Indian market, and only returned to profitability recently following years of losses.

Sharan Lillaney, an aviation research analyst from Angel Broking, says that Etihad will bring strong management input to Jet which will help it to differentiate itself in a market that has otherwise been price sensitive.

"Having a major international player as your partner can help in improving service offerings and also in getting experienced management on the board to help with the decision making," he says.

Choksey says that Jet is also set to benefit from the deal financially, particularly if it uses the cash from Etihad to retire some of its debt load, as this could boost its net profit by as much as 14%.

Lillaney adds that this would give it the cashflow to add to its fleet in the short to medium-term.

"One of the major benefits of this deal for Jet would be to get the much needed cash to reduce debt and interest cost, thus indirectly increasing free cash flows, which could be utilised for further expansion," he says.

Jet is set to benefit from the greater amount of international traffic that Etihad is likely to bring to its domestic services.

Lillaney adds that the deal will also help to strengthen Jet's international presence.

"Currently, Indian airlines only have a 35% market share in passenger traffic travelling from and to India. Thus an alliance with Etihad can help Jet improve and increase its international presence, which in turn would help it to increase its international market share," he says.

Etihad has ready access to markets in Europe and Australasia through its investments in airlines such as [Air Berlin](#) and [Virgin Australia](#), and will no doubt use its distribution network to lift Jet's profile in the overseas markets.

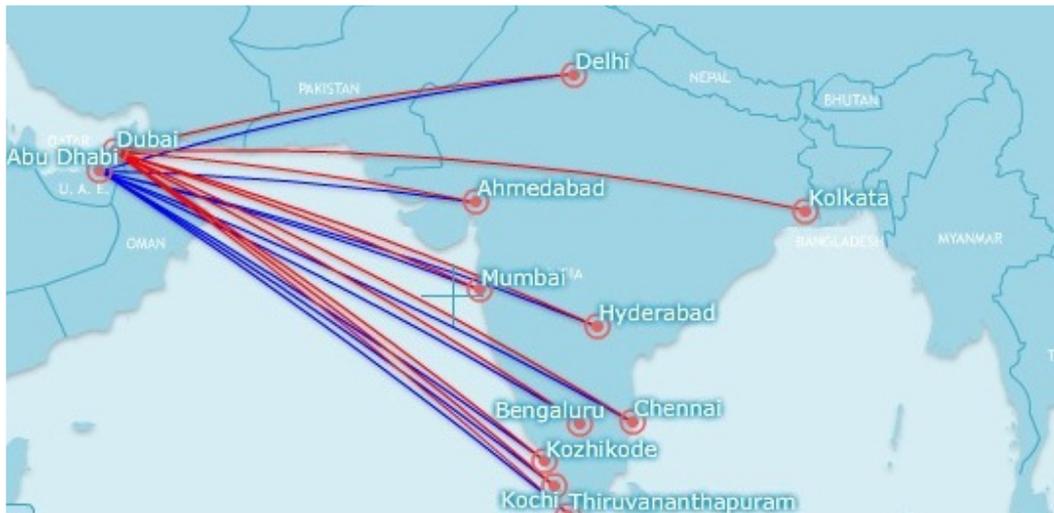
Similarly, Etihad looks set to gain greater access to the fast-growing Indian market.

"A deal with Jet provides Etihad with a bigger foothold in India and allows it to tap into the large number of Indians who travel to the Middle East, as well to North America and Europe," says Choksey.

Lillaney agrees, noting that India could be the "next growth curve for it [Etihad] in the coming years".

The alliance will give Etihad and Jet crucial scale in the United Arab Emirates-India market that is dominated by [Emirates](#).

Emirates/Etihad network to India: June 2013

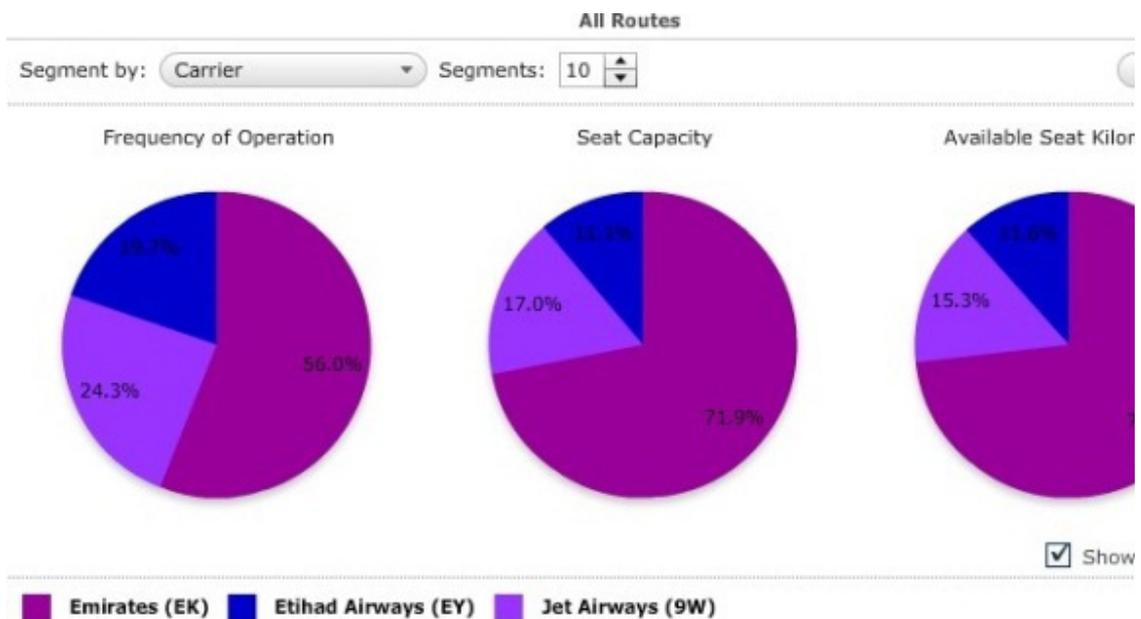


[Innovata FlightMaps Analytics](#) Emirates=red/Etihad=blue

Innovata schedules show that the Dubai-based carrier has 373 flights per week between [Dubai](#) and India, compared with Etihad's 138 services between India and [Abu Dhabi](#).

Jet also flies 36 weekly services to Abu Dhabi, 98 weekly services to Dubai and a daily return service to [Sharjah](#) from Kochi.

Emirates/Etihad/Jet Airway share India-UAE: June 2013



[Innovata FlightMaps Analytics](#)

Combined, Jet and Etihad can better compete with Emirates. The latter has also had a codeshare with Jet on flights from Dubai to Mumbai and Delhi since 2008.

The Abu Dhabi-based carrier will also benefit from Jet's access to the growing market of tier II and III cities in India, which some observers expect will deliver higher growth rates in the coming years compared with the metropolitan markets.

Despite the challenges that have come with dealing in the Indian airline industry, Lillaney believes that the deal will open the gates for more international carriers to invest in Indian carriers.

"There could be more foreign airlines vying for a pie in the Indian aviation market, although it would happen over a period of time," says Lillaney. "International airlines could tap India to trigger their next stage of growth."