

Reverse Engineer

by Muthukumar K.



Paramount's contrarian strategies help it beat the industry downside

WHEN AN AIRCRAFT GETS HIT BY TAILWINDS FROM behind — an unfavourable occurrence — pilots tend to land on the wrong side of the runway to use the wind to their advantage. Madurai-based Paramount Airways' Managing Director M. Thiagarajan, a pilot himself, has applied this strategy to his business. He launched Paramount in 2005 — amidst the low-cost airline boom — as an all-business class airline. While other airlines ordered 180-seater aircraft from Boeing and Airbus, Paramount bought 70-seater fuel-efficient Embraer jets. And while the rest expanded their fleets rapidly, Paramount stuck to just five. Today, as rising crude oil prices force Indian low-cost airlines to prune operations, Paramount has added new routes to take its tally to nine locations, all in the south.

Bottom line: Paramount claims it is the only profitable airline in India in 2008, and with a lower occupancy level — 53 per cent — than the industry average of 68 per cent.

Says Thiagarajan, who hails from a textile business family, "The unique offering of all-business class comfort at economy rates largely contributed to our success." He believes such pricing fitted the value proposition of business class travellers. Says V.V. Bashi, a Chennai-based cardiac surgeon and a frequent flier on

THE RIGHT ROUTE:
Paramount Airways' Managing Director M. Thiagarajan

Revenue			Occupied	
	Profit After Tax		Occupancy rates for the month of June '08 (in %)	
	FY '08	FY '07		
Paramount	N.A.	1.6	Paramount	80.1
Jet Airways	-253.0	27.9	IndiGo	71.2
Spicejet	-133.5	-70.7	GoAir	71.0
Deccan*	-816.8	-356.7	Jet Airways	68.1
			SpiceJet	67.8
			Kingfisher	64.1

Figures in Rs crore *Four quarters ending Mar '07 and Mar '08, and not June as per the company's practice; Source: Capitaline Plus, govt website

Source: Press Information Bureau

Paramount, "Inflight service is good and definitely value for money for the service offered."

The airline has also had some help from unexpected quarters. In Budget 2007, Finance Minister P. Chidambaram lowered sales tax on aviation turbine fuel (ATF) to 4 per cent (from 28-32 per cent) for aircraft weighing below 40 tonnes — suiting the airline's fleet profile — to encourage regional connectivity. Landing and parking charges were also exempted. With ATF comprising 45-50 per cent of cost for airlines, this translated into huge savings for Paramount.

The company has also been efficient in its operations. Its aircraft turnaround time (time taken for a flight to land and take off) is 20 minutes, compared to the industry average of 30 minutes. "The e-jets also mean less fuel consumption, not to mention less travel time," says C.R. Kannan, spokesperson for Paramount.

But it is now that the tailwind could get a little hot to handle. Firmly placed in the south with a 26 per cent market share, Paramount plans to expand to the west by September and later to the north. It is also in talks with Airbus and Boeing for buying longer haul aircraft for international travel starting 2011. "It's easier to fill a 70-seater aircraft than a 200-seater," says Harsh Vardhan, an aviation expert and managing director of Starair Consulting. "A regional model might not necessarily be a good national model and there could be scalability problems."

But Thiagarajan is unruffled. "Embraer aircraft can travel up to four hours, and we will effectively use it for domestic routes," he says. Even the recent folding up of business class-only airlines such as UK-Based Silverjet and US-based MAXjet has not put him off. "Look at some of the international flights from India (hinting at flights such as Pune-Frankfurt or Mumbai-Tokyo) that are going packed," he says, confident that Paramount will live up to its name.



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