A year on, UDAN is yet to soar

The promise of cheap flights between smaller cities still eludes many. A year since the Centre unveiled the regional air connectivity scheme (RCS) with the aim to connect tier-2 and tier-3 cities and make flying affordable for the masses, a mere 15% or 70 of the total 453 routes awarded to various airline and helicopter operators have taken off.

None of the 75 helicopter routes connecting hilly terrain and islands have commenced yet. According to an official of Pawan Hans, the nodal body for overseeing helicopter operations under the RCS, it has identified close to 50 sites for helipads and development work may take 3-6 months to finish. These routes were awarded in January and there is a deadline of six months to start operations.

According to official sources in the Ministry of Civil Aviation, of the 56 unserved airports that the government planned to add to the aviation map in a year, only 16 are ready, and 10 of the 25 under-served airports have been developed.

Two rounds over

Two rounds of bidding have ended for routes under the scheme, also known as Ude Desh Ka Aam Nagrik (UDAN), in the past year. Operators are offered a subsidy by the Centre and the State governments to keep airfares low.

Airlines have to set aside half the total seats in an aircraft at a discounted rate of Rs. 2,500 each per hour of flight and helicopters need to offer a maximum of 13 seats for Rs. 2,500 each per 30 minutes of flight. Operators get exclusive rights to fly on a route for three years, to protect them from competition.

In March last year, after the first round of bidding, five operators were awarded 128 routes, which had to be opened by September-end. A year later, less than half of these routes are operational.

While established players such as Air India subsidiary Alliance Air, budget carrier SpiceJet and regional airline TruJet have been able to deliver on most or all the routes awarded to them, smaller players like Air Odisha and Air Deccan, which won 65% of the routes, have only been able to service less than 15% of the total routes awarded in round one. Air Odisha has commenced flights on eight of the 50 routes it was awarded and Air Deccan has started flying in 10 of 34 it won.

While we are two months away from the deadline to start operations for routes awarded in the second round, three of 15 operators have commenced services on 10 routes of the total 325 routes awarded. Jet Airways and IndiGo have announced that they will be starting flights on some of the routes in June and July, respectively.

In fact, smaller players like Air Odisha and Air Deccan have struggled to raise sufficient capital for their operations, hire trained manpower and lease planes, and have slowed down the implementation of the scheme. The two started their operations with a combined fleet of four 19-seater Beechcraft B-1900D aircraft.

Sources in the Ministry of Civil Aviation said their services had been irregular, often due to lack of trained pilots or when the few planes they have were grounded due to technical issues. The cancellation rates of flights for Air Odisha and Air Deccan have been as high has 80% for some of the months.

Another senior ministry official said, “When we started the UDAN scheme, we kept entry barriers low to attract more players. But there is always a downside that they will take time to build efficient operations. We recognise them as weak players and handhold them with regulatory procedures.”

So, the success of the scheme largely depends on interest from bigger players such as IndiGo, SpiceJet and Jet Airways. Significantly, SpiceJet and IndiGo have not sought any government subsidy for most of their routes.

“With commitments by IndiGo, SpiceJet, Jet Airways and Alliance, RCS is finally gaining traction,” according to aviation think tank CAPA in a report on its India outlook. “But there is little or no business case for small, independent operators without scale, operating older equipment on routes dispersed across multiple stations.”

It remains to be seen whether little-known carriers allotted routes in the second round, such as Ghodavat, Pinnancle Air, Meh Air, Zoom Air, Turbo Aviation and AAA Aviation, will be able to deliver.

Infrastructure problems

Infrastructure constraints, too, have checked the pace of implementation of the scheme. Forty unserved and 15 underserved airports are not ready yet for operations. Some airports owned by State governments and private players have been hesitant in participating as there is little for them to gain with RCS flights exempt from paying landing and parking charges and States required to provide land, security and fire services free of cost.

“Many airports in round two are unserved [ie where no operations exist] and it is difficult to start flights there because virtually nothing exists there. For example, the airport at Darbhanga is operated by Indian Air Force, where the runway is capable of handling only IAF jets and not commercial aircraft like a Q400. To strengthen the runway, we need to lay concrete, which requires two watering seasons; it will take at least 18 months for it to be ready. There is a lot of capital also required for investment at these airports,” Chairman, Airports Authority of India, Guruprasad Mohapatra told *The Hindu* .

On the other hand, bigger airports have struggled to allocate slots for RCS flights. In Phase I, Delhi’s Indira Gandhi International Airport and Mumbai’s Chhatrapati Shivaji International Airport could grant only half of the 20 slots sought from each of them by the Ministry. Severe capacity limitations meant that in Phase II, no slots were granted for RCS operations by these two airports and airlines were told to use their existing slots at these cities.

Silver lining

However, there may be a silver lining: many routes have seen a steady rise in the number of passengers, though there are still pockets such as those in the northeast which are yet to generate any interest in travellers.

“The cumulative average of seat occupancy on our routes has increased from 55% to 70% in a year,” said Senthil Raja, head, commercial, TruJet. “The routes we are operating in didn’t have any flights earlier and we have seen demand picking up.” Alliance Air CEO C.S. Subbiah said, “The routes we started last year under UDAN-1 have begun to stabilise.” He, however, added yields or revenue per passenger per mile are still low as demand was cyclical and airlines were not able to increase fares for seats not covered by the scheme.

Another airline executive said, on condition of anonymity, “Because of RCS you have no competition; you can work with a pricing model and develop a route. That is a great thing... you are protected from competitive pressures. [Demand] can be generated by developing capacities and stimulating the market [with] a good pricing strategy," the official said.

Yields are low as demand is cyclical; airlines are unable to raise fares for non-UDAN seats

C.S. Subbiah

CEO, Alliance Air

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