

Open Skies, Blind Eyes

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The [collapse](#) of the operations of India's leading airline IndiGo initially came as a shock to everyone. The airline, which accounts for more than 60 per cent of flights on all routes, cancelled without warning as many as 4,500 flights in a single week. Stranded passengers had to look for other means of transport or pay hugely inflated prices for the few seats available on other airlines.

The shock was also because IndiGo had been presented as a telling example of the tariff reduction and consumer service improvement that liberalisation in the civil aviation space was to deliver. It had expanded operations to provide connectivity in previously neglected sectors. It had relatively new aircraft and claimed high levels of punctuality. It combined them with relatively low fares, which justified its no-frills character involving crowded seating, unsatisfactory catering, and limited free baggage allowance. Most importantly, the airline's chief claim to fame was that it was delivering on all these fronts while recording profits, unlike almost all [other airlines](#) in India's civil aviation space. In 2024-25, when IndiGo recorded a Rs.7,253 crore profit, [Air India](#) together with subsidiary Air India Express incurred losses totalling Rs.9,808 crore.

The factors driving the losses of other operators were not hard to find. Once entry into the civil aviation space was opened to private operators to promote competition as a means to cheapening and improving service, it attracted a large number of players. Entry and expansion was facilitated by the possibility of leasing aircraft without outlaying large sums for outright aircraft acquisition. With capacity overshooting demand, losses resulting from the cut-throat competition either in the form of costly services or lower prices to attract consumers were inevitable. But the hope that smart operations and deeper pockets would help operators survive and turn a profit ensured a stream of entrants.

In practice, most entrants could not survive. Both smaller airlines like NEPC, Air Deccan, and Paramount Airways and bigger and stronger ones like ModiLuft, Air Sahara, Kingfisher Airlines, and Jet Airways fell by the wayside.

However, advocates of liberalisation and private entry argued that this was par for the course. The market is not benevolent and will punish wrong decisions, incompetence, and consumer neglect. The industry will go through a phase of over-expansion and then experience a shake-out, leaving a small number of "efficient" players, with each of them earning a respectable but not oversized profit.

But failures are not benign market adjustment mechanisms. They are messy. They lead to cancellations, dropped routes, unmet dues to fuel companies and airports, unpaid salaries, and defaults on loans from the financial system, especially the banks that were called upon to fund these ventures and make a success of the government's open skies policy. The "catch" was that when larger airlines such as Kingfisher Airlines and Jet Airways shut down, the damage was significant, and it invited public anger not just against the owners but also against the government.

Regulatory forbearance

The crisis in IndiGo, even if not a failure, is even bigger because the airline that holds 64 per cent of the market had a monopoly in multiple routes across the country. The result has been that the government has stretched itself to boost net revenues of the airlines and bail out the bigger players whenever feasible. Regulatory forbearance that helps cost cutting, without adequate consideration of passenger comfort and safety, has been visible. Public sector banks have been pressured into lending to airline companies to help them stay afloat. And when possible, policy has attempted to trim operational costs.

For example, when oil price increases resulted in an increase in the prices of aviation turbine fuel (ATF), which accounts for 40-45 per cent of operating costs, airlines complained that they were incurring losses because of this exogenous constraint. The government sought to help by getting a number of States to reduce value added taxes on ATF. Yet, although ATF prices have since declined, losses persist for most airlines.

One noticeable instance of an airline that was a beneficiary of government support was Kingfisher Airlines. It was not just competitive pricing and unmanageably high costs that undermined that airline. There was evidence of mismanagement as well. But that was ignored until the airline could no longer meet dues and pay its bills. In fact, the ailing airline was provided life support by the government. Both former Prime Minister Manmohan Singh and Civil Aviation Minister Vayalar Ravi were quick to declare that Kingfisher needed to be “saved”.

The efforts to “bail out” Kingfisher Airlines included large credits from the banking sector, the conversion of a part of the defaulted loans into equity such that the banks held 23 per cent of the shares in the airline when they turned worthless, and taking short-term credits from oil distribution companies on the aviation fuel being consumed by the airline.

This was the result of a moral hazard problem. Big private players implicitly saw themselves as “too big to fail” and did not merely postpone the tough task of turning a profit but padded costs to get themselves a return.

Profits at the expense of services and safety

The IndiGo case seems different. It too is too big to fail. But the record of consistent profits on its books was exceptional. What was ignored was that this profit was extracted at the expense of consumers, employees, and safety measures. There were multiple complaints that to cut costs and record profits, no-frills features were stretched at the expense of consumer service, salaries were kept low, and working hours were extended at the cost of adequate rest and safety. To maximise aircraft use, night flights were scheduled, increasing the pressure on pilots and aircraft crew. The government, through the Directorate General of Civil Aviation (DGCA), was clearly ignoring this.

The Flight Duty Time Limitation (FDTL) saga is telling. The DGCA has been wavering on introducing orders limiting flight duty time since December 2007, despite a successful writ filed by the pilots’ association to implement suitable orders. Finally, about a year ago, the DGCA issued its FDTL order, which was to be implemented in stages and be fully in place by November 1, 2025. Over this year, it should have been clear to the IndiGo management that given its past practices, the airline could comply with the new guidelines only if it either

increased the number of pilots or reduced the number of routes it flew. And there was time enough to do that.

But IndiGo seems to have assumed it would be able to badger its pilots to not demand adherence to the new flight duty rules and get the government to ignore its violation of the rules. Since the other airlines that were still in service did not have the clout to push in that direction, especially given a High Court order mandating implementation, they possibly were willing to comply. It speaks of a sense of impunity on the part of the IndiGo management that it chose to push ahead without making the needed changes.

But when actually faced with pressures to implement the new roster, pilot and crew shortages emerged. Given the fact that IndiGo had run its operations by stretching thin the available aircraft and crew, once the chain of connectivity broke, delays and cancellations arose, and the problem assumed crisis proportions.

Interestingly, the government's response has been sympathetic. It decided to hold in abeyance the much-delayed FDTL implementation and called on pilots and crew to offer "full cooperation" to the airline. The penalty on the airline was only payment of compensation to passengers, which was required by law, and a reduction of 10 per cent in flights scheduled for the winter season. Clearly the government wanted to bail out IndiGo because of the likely damage to its reputation for not having ensured that the airline complied with regulations that were crucial for safety. The fear must have also been that the failure of an airline that was an exemplar of what liberalisation was supposed to deliver could delegitimise reform as well.

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