

## Convergent's Harsha Raghavan On Aviation Graveyard And What Fly91 Is Doing Different

Earlier this month, India's newest airline—Fly91—launched its inaugural flight from its hub in Goa to Lakshadweep. The airline is led by CEO Manoj Chacko, an aviation industry veteran who has worked with Kingfisher Airlines and Emirates in the past, and backed by Convergent Finance, a private equity-style investment firm founded by Harsha Raghavan.

For Convergent, the investment in Fly91 makes for a contrarian bet on a sector notorious for the high failure of airlines in India. But Raghavan, who led Canadian investment giant Fairfax's India operations before starting Convergent, is confident of Fly91's chances. In an interview with VCCircle, he talks about Fly91's expansion plans and explains what is it doing differently. Edited excerpts:

### **What is the rationale behind a PE firm backing an airline given the almost perennial flux in the aviation sector in India?**

Given my investing career of 28 years in India, right from the time the first wave of private air operators launched in India, I have watched the industry and have reviewed a number of business plans in this sector, but only from the sidelines. Companies like East-West, Damania, Jet Airways, IndiGo, Air Deccan and Kingfisher, all have been part of my learnings of the industry. We have had one stand out success, IndiGo, but the graveyard is large.

The reason this sector is challenging is that it is regulated but also because it is a sector where your costs are skewed towards dollars—lease rentals, oil prices etc—and your revenue and business model tend to be in rupees.

One thing that caught my attention is that the sector is serving a fundamental need. People need to travel and it is not practical to do that by land all the time. So, it does solve a fundamental need—to commute from one city to another.

I've had many experiences over the years around the sector—starting from Fairfax's acquisition of Thomas Cook. I had the chance to work with people in the airline sector, including Manoj Chacko, who is the co-founder of Fly91. Later, we acquired Bangalore airport. As a transition plan, I stepped in as the CEO of the airport company. So, I have seen the aviation sector from the periphery but at close quarters.

Solving Indian problems with Indian solutions has been the core part of how we have built Convergent and look at our investments. In the context of the aviation sector, what we have done with this airline, we have architected it with the most fuel-efficient plane—the ATR—and a strategy which is not focusing on international or luxury or business class travellers but on the common man and developing a solution that works for them.

### **Among regional airlines, only Alliance Air (former Air India subsidiary) has some scale. All others seem to be very small, with just 2-8 planes and flying to only a few destinations. Do small airlines have economies of scale to grow?**

We did not invest in an existing airline; we started a new one from scratch. We looked at all the existing options but we believe we can architect it the right way from scratch and build a successful company.

So, what have we done differently? We are doing an ATR-only fleet, many others have mixed fleets. Our hub is not any metro but a new airport at Mopa, Goa. It is the first time any airline has made a hub in Goa and at a new airport.

We have capitalised this company with Rs 202 crore, which makes it the most highly capitalised airline ever to be launched in India. We are absolutely architected for customer-first, service, convenience and economy in terms of team, organisation and culture.

**Do you plan to invest more money into the airline in the foreseeable future?**

At this stage we are very well capitalised. There are scenarios where we will add more capital. But it is too premature to discuss that.

**The UDAN scheme was launched in 2016 but has had limited success. What changes does the scheme need or what other facilities are needed to ensure regional airlines grow and air connectivity improves?**

On 10 March, the prime minister inaugurated 14 new airports. So, we have a boom going on with respect to what the government is doing to help the sector. The private sector has not reciprocated entirely to date because the uptake on this UDAN scheme over the last eight years has been muted.

We got our AOP (air operating permit) only one week ago, but we were awarded the routes seven months ago. That shows how proactive this government has been with respect to encouraging participation in these regional flights.

The reason that the uptake has been muted is because we believe that any jet is the wrong solution for domestic travel of anything less than 90 minutes. For short flights, you burn a huge amount of fuel to go up to 30,000 feet and then come straight down. The turboprops go up to only about 12,000 feet, so you are not burning extra fuel in fighting gravity to the same extent. Admittedly, it is a slower aircraft while cruising but for short flights that does not matter.

So, we believe turboprop planes are suited for a densely populated country like India where land travel is not as convenient.

**How does Fly91 plan on upping its fleet from the present two ATRs to 30 aircraft and 50 routes?**

We have taken delivery of the first two aircraft and will have six by the end of the year, at which point we will probably be operating flights to a dozen cities. The 30-aircraft target is a four- to five-year plan.

**Is Fly91 looking at any domestic and international tie-ups to grow its operations?**

It is not a priority area for us but on an ad hoc basis we may consider code shares. The reason is that some of these international carriers are bringing travelers into the hinterland of India, not just the metros, but they don't have the reach. So, if there is the opportunity to code share with us, then we provide them the last-mile connectivity.

**Mr. Chacko has talked about other hubs apart from Goa—Hyderabad, Jewar near Noida, Bangalore, Pune, Navi Mumbai etc. Are you already talking to those airports?**

We are in touch with a number of airports and we expect to open one new hub a year. We will keep building organically in a matrix approach and continue in the south and west before going into the middle of the country and beyond.

**You have spoken about Goa, Sindhudurg, Nanded, Jalgaon and Agatti. Are there any other destinations?**

Pune, Hyderabad and Bangalore.

**What are the financial timelines for Fly91? By when do you expect the airline to break even or Convergent to return capital to its LPs from this particular investment?**

We are not the kind of fund that takes a buy-to-sell approach. We are organised for a buy-to-build approach. We are not the kind of fund where our investors are expecting their capital back in a timeline. They would prefer us to continue to invest and reinvest that capital to build businesses. We are always looking to invest further and build a business to build equity and are not looking for dividends or to cash out of a business in any time frame.