Air Lanka looks out for Strategic Partner

by Lucien Rajakarunanayake

A major step forward in the direction of privatization was taken when the Public Enterprises Reform Commission of Sri Lanka (PERC), called for worldwide bids for a strategic partner in the planned privatization of Air Lanka, the National Carrier.

PERC has called for offers for a 40 percent stake holding in the airline, after a restructuring programme towards privatization being awarded to a consortium comprising the People's Merchant Bank of Sri Lanka and Chase Manhattan Bank of New York. The latter has been involved in several previous restructuring programmes of airlines and has also helped in identifying good strategic partners for such airlines.

Air Lanka, a wholly government-owned company, has been in existence for fifteen years. It replaced the earlier Air Ceylon, also government-owned, which was compelled to close down due to continued losses, limited routes and a fleet of aging aircraft, which included the old but hardy Dakotas.

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The search for a strategic partner for Air Lanka, is a clear expression of the government's determination to go ahead with the policy of privatization and shedding the stake of government in areas of commerce and industry

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which could be managed better, and even more profitably by the private sector. The government at its last budget stated that it expected to obtain at least Rs 21

billion through the transfer of government’s stake, in a wide range of commercial and industrial activity, to the private sector. Apart from helping bridge the budget deficit, the government’s expectation was to use privatization as a means of encouraging foreign investment in Sri Lanka. The government still hopes to achieve this target from privatization.

Initial opposition to the government’s programme by trade unions delayed the process, and thus forced the government to shelve some of its projects planned for early privatization. It has announced that two state-owned banks will not be privatized, just as it has given a non-privatization pledge to the Ceylon Electricity Board.

However, having taken tough action against electricity board workers, when they staged a two day strike which plunged the entire country into darkness and chaos, the government is now going ahead with greater confidence in pursuing its privatization process. The announcement of the call for bids for the 40 percent stake in Air Lanka is one of these examples, where PERC, the government special authority handling privatization, is seeking to privatize even profit-making institutions of government, despite trade union and left-wing objections.

Air Lanka, today, has a route network of 29 destinations in all continents, other than the Americas and Australia. The network includes six cities in Europe including

London, Paris and Rome; nine in the Middle East including Dubai, Abu Dhabi and Kuwait, seven in India which includes Delhi and Bombay; six key cities in the Far East, including Tokyo, Singapore, Bangkok and Kuala Lumpur. It's most recent additions were Johannesburg and Durban in South Africa.

The South Africa connection holds good promise in view of the very large Indian population there, which will find Air Lanka an easy way of reaching India, in addition to Air India. The airline also looks forward to an increase of business traffic from South East Asia to Europe and South Africa, with a stop-over in Colombo, as an additional attraction.

As the airline was launched by the previous government, it entered into a management agreement for the initial training of staff and setting up of organizational structures. It also used Bateys of Singapore, for its initial publicity. After this limited partnership with Singapore Airlines was over, Air Lanka, continued to develop its image as one of the most hospitable airlines which provides an exceptional in-flight service. Over the years the airline has succeeded in projecting this image, basically an extension of Sri Lanka's own well-known hospitality, and has won acclaim for its warmth and friendly in-flight service, which many other airlines find difficult to match.

Until recently, carrying most of its operations with Boeing aircraft, when it decided to improve and up-grade its fleet, Air Lanka chose Airbus Industrie of France, and has now purchased both the Airbus 320 and the Airbus 340. In fact, it was the first Asian airline to fly the highly sophisticated Airbus 340, with its many facilities to enhance the good in-flight service. The availability of the Airbus A340

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also helped the airline to introduce a direct flight from Colombo to London, Heathrow, and other European destinations, without the regular stop at Dubai.

The Airline continues to obtain a substantial portion of its revenue from the transport of Sri Lankans to the Middle East, where there are now at least 600,000 Sri Lankans employed in the region. It is competing effectively in this segment of its market with Emirates Airlines and Gulf Air, which also seeks to profit from this huge

market.

Air Lanka made a profit of Rs 431.7 million during the year, 1994/95, compared with a net profit of Rs 188.60 million in 1993/ 94, which was an increase of Rs 243.14 million or 128.9% from the previous year. While the Group Net Profit for the year ending 31 March 1995 amounted to Rs 476.10 million, an increase of 146.65 % from the previous year, at the Company level, the earnings per share was up by 129.2%. The return to shareholders' funds was 12.3%, compared to 7.1% achieved the previous year.

Air Lanka's operations apart from the transport of passengers also includes a Ground Handling Facility which services all airlines at the Bandaranaike International Airport, Colombo. In 1994/ 95 this service handled 1,098,838 passenger arrivals and 1,039,977 departures.

In recent years, the airline has shown more ambition in improving its image as a truly international airline. Having worked with a Sri Lankan advertising agency for some years, it did a search for an agency with good international experience and resources, and picked on J. Walter Thompson, Colombo, as its advertising agents, following one of the most highly contested advertising pitches in Sri Lanka. The airline is now seeking to attract the business traveller, particularly, those from SouthEast Asia, through the strengthening of its regional route network, and the traveller who seeks a good connection to Europe from the Far East, with an

attractive holiday stop-over in Sri Lanka.

With an already good record and knowledge about its in-flight service, the airline seeks to make a special attraction of its Business Class, and is in the process of announcing several interesting and attractive offers to this class of traveller, now an important segment in Asian travel.

Air Lanka is also closely involved in making its own contribution to the growth of the tourism industry in Sri Lanka. To this end, it has several special holiday packages with Sri Lanka as the destination. It has also not forgotten the value of the attractive combination of Sri Lanka and the Maldives to the Western traveller. However, the airline does face problems in the full-scale promotion of tourism to Sri Lanka, because of the Ceylon Tourist Board's persistent interest in developing charter traffic during the high tourism season in Sri Lanka.

With passenger traffic between India and Sri Lanka also contributing a great deal to its annual loads, Air Lanka has also developed good packages for those who wish to make a combination of travel to Sri Lanka and India.

The bids for the strategic partner, could be an investor or consortium of investors, but should be, or should include a reputed certified airline, and meet the Net Worth and Liquidity as stipulated by PERC. The memorandum as well as the Qualification Questionnaire is now available and could be obtained from PERC.

There are many signals to show that both well-established regional as well as international airlines are showing a keen interest in the bids, with the knowledge that the end result of the government's current market oriented economic policies will be to help make Sri Lanka an important hub in South Asian commercial activity.

There is also the added assurance that the main opposition party in the country, is the one which introduced the policy of privatization, although it was not as clear and open in its methods as the present government in its approach, and any. change of government would not put the policy of privatization or the emphasis on the private sector as the main engine of growth in Sri Lanka, in jeopardy.

Referring to the success of the airline in the area of profitability, increased passenger traffic and the addition of new aircraft to its fleet in 1994/95, the Chairman of Air Lanka says in the annual report for the year that, "these achievements have to be considered in the context of the global aviation industry

which is still in a state of turmoil with escalating costs and ever declining yields.”

Air Lanka does have to face stiffer competition today with the re-entry of British Airways to Colombo and also the competition from Cathay Pacific, as well as KLM, to a limited extent. Referring to the privatization process, the Chairman of Air Lanka says: “Today we are on the threshold of yet another exercise which is bound to have far-reaching implications on the future of Air Lanka. Under the guidance of PERC, a team of consultants are now in the process of evolving a plan to restructure the airline with the objective of attracting equity participation in the airline up to 40% of its shareholding.

This exercise when successfully completed will ensure the long term viability of Air Lanka and its rightful place in Asia’s civil aviation industry.”

Air Lanka offers its travellers a taste of Paradise. There is keen interest regarding the future investors from abroad who would wish to share in this offer, by an airline which has shown a consistent record of growth and improvement through the past fifteen years.