Vistara: Tortoise with hares all around it

But slow and steady may not always win the race

ANJULI BHARGAVA
New Delhi, 9 September

In early March 2020, Vistara inducted its first B787-9 — the Dreamliner — to launch its international operations, almost five years after it took to the skies, a much-anticipated moment for the Tata-Singapore Airlines joint venture in India.

But as luck would have it, the aircraft arrived to stand on the ground for several months as the Covid-19 pandemic grounded airlines worldwide. For close to six months, the aircraft lay idle and was joined by a second one in August, in consonance with the induction schedule. It is, however, only at the end of August that Vistara decided to launch its maiden international Delhi-London (Heathrow) flight, three times a week as of now. In terms of timing, the induction couldn't have come at a worse moment.

This is as far as the carrier's international operations go. But even its domestic fleet — grounded like those of other airlines — has been lying virtually idle through the pandemic. "The airline has been slow and stodgy in its management in this time of crisis," says an aviation industry analyst. Many in the sector say that Vistara lacks the light-footedness of the airlines with which it competes. Airlines such as SpiceJet took the lead in pushing revenues through cargo and charter operations during the pandemic, a move followed quickly by the market leader IndiGo. Vistara, by contrast, has only recently started focusing on both these revenue-earning streams.

In an email response the company said that it was taking a deeper dive into cargo and charter operations, increasing its revenue through cargo and doing more charters. "During the lockdown, Vistara operated 34 special cargo flights in a little over a month's time to transport more than 220 tonnes of essential commercial goods, relief material, and medical supplies," a spokesperson said. The airline said that it had pulled its Dreamliner into cargo operations, too. The spokesperson added that the airline had also done a few international charters — without specifying how many — and would now be doing some flights under the travel bubble.

The airline currently operates around 50 domestic flights a day, compared with close to 125 flights for SpiceJet and 500-odd for IndiGo. Ever since flights resumed, many carriers are taking bookings for flights to collect cash but cancelling them at the last minute due to very poor loads. The carriers find themselves in a "chicken and egg" situation. Carriers need to fly more and win back passenger confidence. But loads are very low and don't justify operations, so carriers are for loads to pick up to add more flights. "Only if they fly more will loads pick up," argues an official in the Directorate General of Civil Aviation. A bloodbath on their books is unavoidable for now, he says.

"The danger of Vistara going the 'Kingfisher way', a money guzzler with no hope of returns, is the big worry," says an industry source. The pandemic and the consequent hit on airlines coupled with Vistara's almost tortoise-like approach is pointing towards far higher losses in FY21. According to CAPA India Research, Vistara's losses for FY20 are ₹1,270 crore and will cross ₹1,800 crore in FY21 (being unlisted Vistara does not reveal its financials). But industry sources say CAPA's numbers are conservative. Market estimates suggest the airline has already totted up ₹1,800 crore of losses in FY20, and FY21 is expected to see losses in the region of ₹2,500-3,000 crore, because the first quarter is a write-off and the post-pandemic recovery of the sector is unclear. Domestic losses, they argue, will be compounded by the international ones for this year.

Many are confounded by the sheer size of the airline's losses in FY20. Almost all the Indian players gained substantially in the first quarter of the year gone by due to Jet's closure and it is argued that one of the biggest gainer from Jet's closure in some sense should have been Vistara as it was the only one offering a business class product on the main trunk routes, just as Jet did. While IndiGo ended the year (despite a far bigger operation) with a loss of ₹230 crore and SpiceJet (53 aircraft) with a loss of almost ₹930 crore, Vistara's loss at ₹1,800 crore with 33 aircraft in operation has taken the industry by surprise. "It's hard to see how, when and where the airline anticipates this changing," says one source. The airline in response defended the losses, arguing that it invested in aircraft and expansion and that oil prices remained high through the year.

FLYING LOW

FY20 LOSSES (₹crore)

- IndiGo: ₹230
- SpiceJet: ₹930
- Vistara*: ₹1,800

*source: industry

But more fundamental questions remain up in the air, such as whether the Indian domestic aviation space can at all support a full-service airline. Many believe — based on the experience with both Jet and Kingfisher — that the Indian market can no longer support a full-service carrier. In a recent interview to this paper, IndiGo CEO Rono Dutta argued that he didn't think there was any space in India's market today for an airline to charge a bit more for this or that. Vistara sources also acknowledge that its "premium economy" gambit tried in its initial days did not work and now the Indian market's price sensitivity cannot support any extras.

Industry veteran Shakti Lumba adds that "the very fundamentals on which Vistara was set up have been uprooted by Covid-19". In a post-Covid-19 world, he thinks, the airline's chances of success are slim.

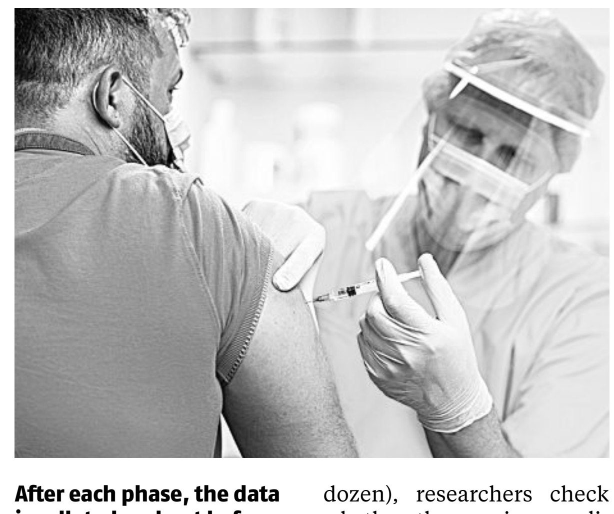
Many believe that the Tata group made a cardinal mistake in 2019 when it failed to buy the struggling Jet Airways and merge it into Vistara. Now some feel that the only way for the Tatas to make good of this investment is to buy Air India and try to pull off a successful merger of two "public sector companies", the latter a telling comment on how Vistara is viewed in India's aviation landscape.

DECODED

What happens when a vaccine trial runs into a hurdle at Phase 3

SOHINI DAS
Mumbai, 9 September

On Tuesday, British drug major AstraZeneca voluntarily suspended clinical trials in the UK for the vaccine candidate developed by the University of Oxford after an event of suspected adverse side effect came to notice. The Indian arm of the trials, however, is continuing with the process. A lot is riding on what is dubbed as one of the front runners for Covid-19 vaccines. When are vaccine trials paused? And what happens now? Let's find out.



Why was the Covishield trial paused in the UK?

The UK arm of the Covishield trial reported an incident of serious illness that needed hospitalisation, but the cause was unexplained. There is, thus, a possibility that the trial participant may have experienced the sickness due to an adverse reaction following the administration of the vaccine.

What is the general process of clinical trials of a vaccine candidate?

There are quite a few stages of clinical trials to investigate a vaccine candidate. First, it is tested on animals — both small and large. These are called pre-clinical trials. Investigators typically check for immunogenicity (immune response) and safety profile of a candidate. In case of the Oxford-AstraZeneca candidate, trials were done on monkeys.

After each phase, the data is collated and put before the ethics committee that comprises experts from different fields. Once the committee is satisfied with the data, it gives a green signal to proceed to the next stage

Human trials begin with Phase 1, which involves giving vaccines to volunteers with informed consent and then looking for adverse effects. There are two kinds of adverse effects: Any toxic effect on any human body tissues (picked up by symptoms or biochemical parameters in blood); or if one develops any adverse immune reactions.

In the Phase 1 of clinical trials, usually carried out on a small group of people (a few dozen), researchers check whether the vaccine candidate is safe or not, meaning whether or not it induces any harmful side effects in the human body.

The Phase 2 trials, usually carried out on a few hundred participants, are mostly about checking whether the vaccine triggers adequate immune response in the body.

The third phase, of several thousand participants, is the most comprehensive and also the most time-consuming. In Phase 3 trials, people with underlying conditions, weaknesses or diseases also participate. They have to be RT-PCR negative for the Sars-CoV-2 infection. In Phase 3, some adverse reactions are not uncommon.

After each phase, the data is collated and put before the ethics committee that comprises experts from different fields. Once the committee is satisfied with the data, it gives a green signal to proceed to the next stage. Each clinical trial site has an ethics committee.

Have vaccine trials been dropped in late-stage clinical trials?

Most HIV vaccine trials have not been successful. GSK's MAGE-A3 vaccine candidate was dropped due to lack of efficacy. Late-stage trials of Takeda Pharmaceutical's dengue vaccine failed to protect against one of the four types of the virus. Sanofi's dengue vaccine Dengvaxia, which was approved in late 2015 as the world's first vaccine to treat the condition, ran into controversy after it was introduced in the Philippines. It actually increased the risk of severe dengue in people who had not been exposed to the disease previously.

When can the Covishield trials re-start?

The restart of the vaccine trials will depend on the UK medical regulator, the Medicines and Healthcare Products Regulatory Agency. Once it reviews the situation, analyses the cause of unexplained illness in the participant, and is convinced that the vaccine is safe for administering, the trials can re-start. International media reports claim that it can be a matter of a few days or weeks.

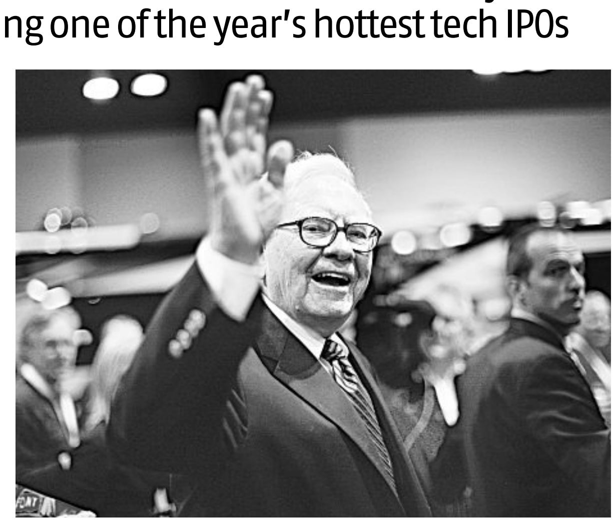
Go ahead and call Warren Buffett a Snowflake

No FOMO here: At a time when Berkshire Hathaway isn't making many other fresh bets, it's buying one of the year's hottest tech IPOs

TAE KIM & TARA LACHAPELLE
9 September

As investors fret over whether high-flying technology stocks have gotten too frothy, the recent volatility isn't scaring away Warren Buffett's Berkshire Hathaway — at least not when it comes to getting in on the ground floor of what may be one of the year's most sought-after tech IPOs. Yes, you read that correctly.

Snowflake, a fast-growing cloud-software and data-warehousing company, filed an amended offering prospectus on Tuesday that revealed Berkshire will buy roughly $250 million of Snowflake shares at its IPO price and an additional four million shares from another stockholder. The two transactions add up to a roughly $600 million overall stake in the company if it goes public at the assumed price of $80 per share, the midpoint of the $75 to $85 current range. Snowflake said it plans to raise more than $2 billion by selling 28 million shares in the public offering.



"In 54 years, I don't think Berkshire's ever bought a new issue."
BUFFETT IN A *CNBC* INTERVIEW LAST MAY

Don't let the icy name fool you: Snowflake is poised to be one of the hottest deals the industry has seen in a while. When the upstart first filed to go public in late August, the same week as a half-dozen other technology unicorns, a *Bloomberg* column noted at the time how the company stood out as the most promising of the bunch. With its leadership position in cloud software and open-ended opportunities, it has the kind of profile and prospects investors like to see in a tech IPO. Snowflake's revenue increased 121 per cent in its most recent quarter, which was significantly higher than most of its public cloud peers. Further, its best-of-breed offering in the data analytics market, which is in the early stages of moving to the cloud, points to many more quarters of robust growth ahead.

As promising as Snowflake may be, it's unusual to see Berkshire's involvement because Warren Buffett and IPO are two nouns that aren't normally found in the same sentence. "In 54 years, I don't think Berkshire's ever bought a new issue," Buffett said in a *CNBC* interview last May. "They don't even call us," Charlie Munger, Buffett's longtime business partner, added. (They were apparently forgetting Berkshire's participation in the 2018 offering of Brazilian digital-payments company StoneCo Ltd. But that's the only example that comes to mind.) Moreover, Buffett's dealmaking doctrine has always been to stay away from companies and industries he doesn't understand. It's why, at least until recently, Big Tech was never big at Berkshire.

Most consider that to be one of Buffett's biggest career mistakes — largely missing out on the ascent of technology giants such as Apple, Amazon.com and Microsoft. As *Bloomberg Opinion*'s Nir Kaissar noted last week, those three stocks alone were responsible for 25 per cent of the gains over the last five years in indexes that track the global market. Berkshire didn't start building its now-$119 billion Apple position until 2016; it bought into Amazon only last year, and Buffett has called himself an "idiot" for waiting so long. Neither of those bets were even directed by Buffett himself, instead owing to his investing deputies, Todd Combs and Ted Weschler.

It may be that Team Buffett doesn't want to miss out on the next tech darling, and so it's taking a chance on Snowflake. It is likely whoever pulled the trigger at Berkshire was able look beyond the company's current large losses — including its approximate $350 million in red ink during its last fiscal year — and see Snowflake's bright future.

Buffett turned 90 last month, and Munger is approaching 97. One thing that was clear at Berkshire's last in-person shareholder meeting, in 2019, was that it needs to do a better job courting the next generation of investors, who may have less fascination with Buffett than with tech pioneers like Elon Musk and Jeff Bezos. And considering Tesla and Amazon's five-year return is more than 500 per cent, compared with Berkshire's 63 per cent, they'd be justified. But look out tech kings: new decade, new Buffett — and one, it appears, who is willing to let Berkshire go in new directions. Plus, he needs to spend that $147 billion of cash somehow.

Bloomberg