Air India Privatisation

What is the issue?

Tata Sons' subsidiary Talace Pvt. Ltd. was the winning bidder for the 100% stake in Air India, the national carrier of India. Here is all about the transaction.

What is the Air India privatisation deal?

- The government, in 1953, had taken control of the airline (founded as Tata Airlines) from the Tata Group in 1932.
- Air India is now sold back to the Tata group, reportedly for Rs. 18,000 crore. 20% over its reserve price plus aircraft debt of Rs.15,300 crore.
- The government has got a paltry Rs. 2,750 crore in cash and keeps a debt of Rs. 61,000 crore that is transferred out of Air India's books to another entity.
- Tata Sons will thus regain control of Air India, a first step in the Centre's mega privatisation push.

Notable features in the transaction

> The enterprise valuation has been used to arrive at the bid value, which is the norm in M&A (Mergers and acquisitions) deals. The non-core assets of the company are not part of the sale.

- The non-core assets have been hived off to a special purpose vehicle, along with a part of the debt.
- [Air India owns valuable real estate in Mumbai, Delhi and other cities.
- It would have become controversial if these had been transferred to the buyer along with the core assets.]

What were the challenges involved?

- Accumulated losses of minus Rs 44,000 crore of net worth
- Huge pile of debt despite continuous infusion of funds
- Powerful employee unions
- Sorry state of the airline industry globally, post-Covid

Why is the move so significant?

- This time the government had kept itself open in terms of what the bidding parameters would be.
- The decision comes as a clear signal of the government's commitment to reforms and readiness to move ahead in sync with market realities.
- A transaction as "tough and complex" as Air India's in an open, transparent and competitive bidding process, will boost future privatisation.
- The bureaucracy can now focus on larger policy issues that plague the airline industry without worrying about running an airline.

What is the future scope?

- Air India, despite its fall in recent years, still enjoys brand equity.
- It owns prized assets in the form of landing slots in airports across the world.
- It owns flying rights on some of the most sought-after routes.
- It's technical resources and staff are highly valued though the fleet itself may need modernisation.
- But the airline also comes with accumulated losses of about Rs 70,000 crore apart from the Rs.15,300 crore debt transferred in the sale.
- The Tatas will need to keep investing in the airline and also find a way to harmonise its functioning with their other two airline ventures.

What led to Air India's downfall?

- **Ordering new fleet of 111 Boeing aircraft** in 2005-06 - A closer look reveals that the Boeing order was placed with the tacit approval of the then PM as a quid pro quo for waiver of NRC (Nuclear Regulatory Commission) action against India by the US Congress.
- Air India's miniscule equity capital was quickly wiped out, and with accumulated losses the airline's net worth turned negative.
- **Faulty aircraft configuration** - The long haul B777 and B747 aircraft had "vanity first class cabin" that was rarely filled.
- This added to its operating losses by an estimated Rs. 350-400 crore per year.
- **Inability to offer direct non-stop flights from major growth centres** - E.g. It forced passengers going from Kerala to the Middle East or from Bengaluru to the US to travel via Mumbai/Delhi, adding 8-16 hours to total travel time.
- **Heterogeneity of fleet** - Indian Airlines as well as Air India had historically used Airbus (A-319/320/321) fleet for short-haul services.
- Adding Boeing 737s for short-haul flights added to Air India's inventory costs and further training of the crew.
- **Forced (failed) merger between Air India and Indian Airlines** - These were merged in 2006-07 to facilitate better synergies of their resources.
- But resources, aircraft, men, material and machines remained divided, and the merger has remained only on paper.
- The merger without employee lay-offs simply magnified problems like excess manpower.
- **Rich employees** - Air India paid a heavy price for "buying peace" with unions during mid-1990s.
- Paying huge salaries to its pilots and aircraft maintenance engineers (AMEs) hit the airline hard.
- **Inability to face change** - The change brought in by liberalisation of the airline industry post

2005 had an impact.

- The reactive management style (instead of proactive) showed that Air India was poorly placed to face the challenges of liberalisation.
- Lack of customer focus, bad financial management, and firm unionised employees made things even worse.
- **Lack of professional management** - There was a lack of continuity or accountability of the top leadership.
- **Failure of asset monetisation** - Air India, during its golden days, invested in the entire aviation value chain.
- These assets were ill-managed and were later sold unprofitably.

Reference

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