GMR Airports Stake Sale

What is the issue?

- The Competition Commission of India (CCI) approved the deal on acquisition of a 55.2% in GMR's airports business.
- While the CCI has approved the deal, the Airports Authority of India (AAI) has sought the solicitor general's opinion.

What is the deal?

- The GMR Group is an infrastructural company.
- The GMR Airports Ltd (GAL) presently owns and operates Delhi International Airport Ltd (DIAL) and Hyderabad International Airports.
- The approval for the stake sale was given to -
    1. TUTPL which is a subsidiary of Tata Realty and Infra which in-turn is a wholly-owned subsidiary of Tata Sons
    2. Valkyrie, an affiliate of GIC Private Limited
    3. Solis, an investment vehicle of the SSG group
- The deal will bring Rs 8,500 crore to the GAL.
- The stake sale will give Tatas a stake of about 20% in GAL.
- On the other hand, the GIC and SSG will hold about 15% and 10%, respectively.
- GMR Infra's stake will come down to about 54% while an employee welfare trust will hold about 2%.
- The new investors led by Tatas will find representation on the board, but the management will continue to be run by GMR.

What is the concern in terms of the stakes?

- The principal problem is that the Tata group has majority stakes in two domestic airlines - Vistara and Air Asia India.
- If the deal between the Tata group and GAL goes through, the Tata group will have a 20% stake in GAL, and, by extension, a 12.8% stake in DIAL.
- This conflicts with a 2006 agreement between the AAI and GAL, which capped an airline's shareholding to 10% in DIAL.

- Placing a limit on an airline's shareholding in an airport is valid from the point of view of competition law.
- This is because it is possible for an airline-owned airport to accord unfavourable slots in terms of timing and placement to competing airlines.
- So, the argument for minimising airline stakes in airports, especially major ones, is to avoid a conflict of interest with other user-airlines.
- But the 2006 agreement appears excessively restrictive.
- This is especially true when it constrains the airport operator's ability to attract funds for expanding and modernising the country's busiest airport.

What is the concern with AAI's referral?

- The AAI's referral may be a case of abundant caution on the state-owned airport operator's part.
- Both GAL and the Tata group have given assurances that they would not breach conflict-of-interest issues.
- But, these pledges should not be considered a sufficient condition to pass the deal.
- A review of the rule as a matter of principle would be a better idea for India's rapidly expanding airports business.

Source: Economic Times, Business Standard