

# AIASTL

October 4, 2019

**Source:** *The Hindu*

**Manifest pedagogy:** Air India disinvestment is a news along with various issues and problems in aviation sector in India. Coupled with global headwinds such as 737 Max, fuel prices etc, resolution of airline industry seems far fetched.

**In news:** The government has revised a contentious clause in the ground-handling regulations to enable the sale of Air India's subsidiary, Air India Air Transport Services Limited (AIATSL).

**Placing it in syllabus:** Airline industry and its problems (explicitly mentioned)

**Static dimensions:** Strategic disinvestment & Problems of Air India

**Current dimensions:**

- AIASTL
- Debt of Air India and package given to it
- Attempts at privatisation of AIATSL

**Content:**

Strategic disinvestment: Strategic disinvestment would imply "the sale of a substantial portion of the Government shareholding of a central public sector enterprises (CPSE) of upto 50%, or such higher percentage as the competent authority may determine, along with transfer of management control." (DIPAM)

- The government earlier this year made an attempt to divest its stake in Air India by selling 98 per cent of its stake in Air India Air Transport Services Ltd

(AIASTL), Air India's arm.

- The **Preliminary Information Memorandum (PIM)** for the sale was issued to interested parties.
- The government had set March 26, 2019 as the last date for submission of interest from interested parties and intimating the qualified bidders was in April, 2019.
- However, the disinvestment process didn't gain momentum.
- Now the government is committed to strategic disinvestment of Air India and is taking steps to make Air India a vibrant global airline.
- The Air India **expression of interest (EoI) paperwork** is also likely to be finalised and could be cleared by the special mechanism headed by the home minister.
- According to official sources, about Rs 30,000 crore debt in Air India would be taken over by the government.
- The government has proposed to raise Rs 1.05 lakh crore from disinvestment in the current financial year.

### Problems of Air India:

Air India has been outmanoeuvred by private carriers in India's intensely competitive aviation market. Air India's revenue from passengers topped 55 billion rupees Oct- Dec (2018), an increase of 20% on the year.

As of August, 2018, the airline had received over 270 billion rupees in support under a 10-year turnaround plan approved by the previous government in 2012. The plan provides for a total equity infusion of 302 billion rupees into the airline through 2021.

When the government attempted to sell the airline along with two-thirds of its debt in 2018, the offer found no takers mainly because the state sought to retain a 24% stake, which would give it a presence on Air India's board and require its consent on important resolutions.

Budget documents released on February 1, 2019 show the government would provide 39 billion rupees for servicing debt transferred to Air India Asset Holding (AIAHL).

#### **AIASTL:**

- **Air India Air Transport Services Limited (AIATSL)** is a fully owned subsidiary of Air India Limited, formed with an aim to provide unified Ground Handling services.
- It presently provides **ground handling services at 80 airports.**
- Apart from handling the flights of Air India Limited and its Subsidiary Companies, ground handling is also provided for: *37 foreign scheduled airlines, 3 domestic scheduled airlines, 4 regional airlines, 12 Seasonal charter airlines, 23 foreign airlines availing Perishable Cargo handling.*
- It is the **first and only Ground Handler in India to handle the Airbus A380 on its maiden flight to India**, to handling the futuristic 787 Dreamliners at major Airports in India.

#### Debt of Air India and package given to it:

- The government had cleared a plan to transfer about Rs 29,000 crore of its **Rs 58,000 crore debt** to a Special Purpose Vehicle (SPV) **Air India Assets Holding (AIAHL).**
- AIAHL is headed by Air India's chairman and has five other members.
- Air India is expected to have incurred **a loss of ₹7,365 crore in the year** ended 31 March 2019, compared to the ₹5,337 crore loss it reported in the previous year.
- The losses can be attributed to a weak rupee, higher fuel prices and the high-interest rate burden on its debt.
- In the **interim budget**, AIAHL was allocated Rs 3,900 crore for the previous and current financial years to

service debt.

- AIAHL is expected to repay ₹22,000 crore of its ₹29,464 crore working capital debt in October.
- As of now, only one subsidiary of Air India, **AIATSL, has been transferred to AIAHL, in line with the share purchase agreement** between Air India Ltd and AIAHL subject to conditions which include the approval of lenders.
- Now Air India won't have enough money to pay salaries to its employees beyond October amid upcoming debt repayments.

The government had provided Air India **sovereign guarantees amounting to Rs 7,000 crore** and the airline has about Rs 2,500 crore left.



#### Attempts at privatising AIATSL:

- The government has revised a contentious clause in the ground-handling regulations to **enable the sale of AIATSL, allowing the new buyer to retain its businesses across 76 airports for seven years.**
- The attempt to privatise AIATSL was launched in February, 2019 but met with several delays.
- Interested bidders raised queries about the tenure of assured business from Air India, grandfather rights of the ground-handling company at 76 airports it provides services etc...
- As per the **Airports Authority of India Ground (Handling Services) Regulation, 2018**, the new buyer of AIATSL can enjoy grandfather rights for 'eighty four' months (changed from 36 months).
- The Ministry has also **revised the definition of ground-handling agency**, which will now be an entity "with distinct and independent existence at the airport" providing ground-handling service.

- This is expected to discourage manpower suppliers from bidding for business, which was a practice until 2017.

### Stumbling blocks:

Interested players would like some assurance from the Airports Authority of India (AAI), on the terms of bidding for ground-handling operations at its airports as and when it floats a fresh tender as well as how many ground handlers it would allow at the same airport.

In 2018, AAI had made an effort to award new contracts and shortlisted players who had promised steep royalties, making AIATSL unviable for private players. AAI later cancelled the whole process.