

Sale of Air India

January 31, 2020

Source: *The Hindu*

Manifest pedagogy: The sale of Air India is showing intent and commitment on the part of the government in taking important economic decisions. This topic should also be looked at within the ambit of disinvestment as a whole.

In news: Indian government has agreed to sell its entire stake in Air India.

Placing it in syllabus: Infrastructure

Static dimensions:

- Legacy issues of Air India
- Past efforts to privatise Air India

Current dimensions:

- Air India and its subsidiaries
- Proposal for sale

Content:

The Centre has invited preliminary bids to **divest its entire stake in Air India**. As part of the strategic disinvestment, Air India would also **sell 100 per cent stake in low-cost airline Air India Express and 50 per cent shareholding in joint venture AISATS**.

Legacy issues of Air India:

- **Air India** (formerly named Tata Airlines) was converted into a Public Limited Company on July 29th 1946 and renamed as Air India.
- **Indian Airlines** was a major Indian airline focused primarily on domestic routes, along with several

international services to neighbouring countries in Asia.

- It was state-owned, and was administered by the Ministry of Civil Aviation.
- The airline operated closely with Air India, India's national carrier and **both companies had made an attempt at merging in 1986.**
- In 2007, the Government of India announced (**recommendations of Dharmadhikari Report**) that Indian would be merged into Air India.
- Air India has been making losses since the merger with Indian Airlines in 2007.

Post merger problems:

- Incomplete integration of official positions as well as infrastructure due to different aircraft flown by the two companies, and inability of employee unions to accept merger.
- Decline of customer service due to integration issues.
- Ballooning of losses due to increasing prices of ATF.
- Decreased passenger traffic during recession.
- Unnecessary and costly acquisition of aircraft fleet.
- Increased competition from domestic airlines as well as international airlines due to unfavourable government policies.

Past efforts to privatise Air India:

- The **first attempt at selling a stake in Air India** was made **in March 2018.**
- It **failed to take off as** investors were uncomfortable with the **government retaining a 24% stake in the airline** as well as the requirement to stay invested for at least three years.
- Also, Air India's **debt of more than ₹33,000 crore** that was bundled with the sale deterred investors.
- As of August, 2018, the airline had received over 270

billion rupees in support under a **10-year turnaround plan approved in 2012.**

- The plan provided for a **total equity infusion of 302 billion rupees into the airline through 2021.**
- In **December, 2018, parliamentary approval** was sought for a capital infusion of 23 billion rupees into Air India.
- To reduce the debt burden, the government established **Air India Assets Holding Ltd (AIAHL) in February, 2019** a special purpose vehicle (SPV) to park a part of the airline's debt not backed by any asset, non-core assets and other non-operational assets of the airline.

Air India and its subsidiaries:

- Air India has **two subsidiary carriers – Alliance Air and Air India Express** providing regional and low-cost point-to-point services.
- **Additional subsidiaries are** Hotel Corporation of India Limited, Air India Charters Limited, and Airline Allied Services Limited.
- In 2013, it **split its engineering and cargo businesses into two separate subsidiaries,** Air India Engineering Services Ltd (AIESL) and Air India Air Transport Services Limited (AIATSL).
- The **government owns 100% stake in Air India, and its subsidiary Air India Express.**
- **AISATS** is a joint venture partnership between Air India and Singapore Airport Terminal Services (SATS) Limited, founded in 2010, which provides ground and cargo handling services across airports in India.

Proposal for sale:

- According to the bid documents issued by the Department of Investment and Public Asset Management (DIPAM), the **last date for submission of bids for sale of Air India is 17 March, 2020.**
- The qualified bidders will be notified on 31 March,

2020.



- The airline has a **fleet of 146 aircraft**, which includes 16 grounded aircraft, 13 unions, about 10,000 full-time employees and 21,000 total employees.
- It has incurred a **loss of 85.56 billion rupees** in the fiscal year ended March 31, 2019.
- The document has said that a **bidder must agree to assume 232.87 billion rupees (\$3.26 billion) in debt** and other liabilities of Air India and its associate companies.
- The previous plan required the new owner to assume about 60% of Air India's roughly \$8.2 billion of debts.
- The **buyer(s) must have a minimum net worth of \$500 million.**
- If the bid is via a consortium, the lead member to hold at least 26 percent.
- The debt includes government guarantees, which go away once the new bidder takes over.
- On the operations front, the Air India brand is to continue.

- The **effective control of the airline must remain with an Indian entity**, though a foreign airline is permitted to buy up to 49% stake.
- According to estimates, it would cost at least \$7 billion as initial investment with about \$10 billion more required to revive the airline.
- The **new owners of Air India may have to take the liabilities against gratuity and medical benefits of employees**, who retire after the privatisation of the airline.