

# BUSINESS WORLD

## Air India Conundrum

*Privatisation of Air India with its current liability appears out of question. Therefore, half its liabilities have been put in a separate company not being sold along with its properties.*



**03 January 2021 By Sanat Kaul**

Ever since the last minute abortive divestment of Air India in 2001 followed by the lack of decision and its mismanagement the has eaten into its vitals.

The issue that needs an answer is why the NDA-1 did not take any corrective action and allowed the airline to continue its drift downwards. NDA- 2 post 2019 took a decision to sell it but fumbled in preparation of terms till Covid lockdown and now there are no takers. Even after the special privileges given to it during the recent Vande Bharat Mission and Bubble arrangements it's share has gone down. Its shows the utter mismanagement by the government when we have fine example of Satyam turnaround. It is clear that the government has lost its will to make Air India competitive again. In fact, but cutting costs it bites into its own market.

For example, it reduced its Global Distribution System providers to one company thereby curtailing its catchment area of potential passengers leading to a protracted

legal battle with others which they lost. However, this damaged their market visibility. In the hindsight, by trying to cut costs it bit into its own market. For example, it reduced its distribution by moving its Global Distribution System providers to one company thereby curtailing its global reach of potential passengers. Eventually, it lost market share from 12% to 8% ending up with diminished market visibility. Market reach is the most important to the last passenger during the pandemic.

According to reports the accumulated losses of Air India were over Rs 62,000 crores by 31st March, 2019 but half of it has been taken out into a Special Project Vehicle (SPV) along with its substantial real estate assets which it built over the years from its profits. The 2018 sale of the Airline was abortive with no takers when only 76% of the equity was offered. The current stage is of a continuing attempt at divestment with 100% equity now being offered. However the condition of 'Substantial Ownership and Effective Control' will continue to remain which means a foreign airline will not be able to buy it outright and it will have to be largely with Indian nationals.

Government ownership of Airlines makes little sense in today's age especially in India which has wrapped up its public sector in unworkable conditions of unnecessary parliamentary control and threat of CBI / CAG inquisition with court cases that drag on to eternity. US never had any government carriers and Europeans have privatised most of them. Gulf have them but they are dictatorships and brook no lethargy. Same with Singapore but they have also privatised them. China has a system like ours - a mix of state owned and private but due to lack of transparency it is not clear how much subsidy they get. Even the state government's of China do provide subsidy.

Privatisation of Air India with its current liability appears out of question. Therefore, half its liabilities have been put in a separate company not being sold along with its properties. One of the anonymous bidder has suggested that it could be given free. The reason given is that the buyer will have to spend out of its pocket to upgrade the airline and will need funds to offer VRS, gratuity etc to employees not needed. This suggestion has its own merits and needs to be considered especially post Covid which has made airline business very vulnerable.

In the meantime it is said Tata Sons, the holding company of the \$113 billion salt-to-software conglomerate, has decided to bid for the embattled national carrier Air India which is a part of their legacy having been taken over by government in 1953. It has been reported that Tata Group has started negotiations with Singapore Airlines (SIA), its joint venture partner in Vistara, for a proposed bid for the debt-laden Air India. The bid will be through Vistara, which is a full-service airline. It is worth mentioning here that this year, the Centre has had to postpone bidding for Air India four times in the wake of the coronavirus pandemic and now the latest date for submission of Expression of Interest is December 14, 2020. It is also worth mentioning that twice

earlier TATAs and Singapore Airlines have got together- first time to start a domestic airline when their proposal was thwarted by a rival airline owner's successful attempt at using his political muscle and the Cabinet decided not to allow foreign airline investment in domestic sector. The second time when Singapore Airline backed out of the Joint Venture which was bidding for Air India in 2001- the 1st privatisation attempt during PM Atal Behari Vajpayee's time. However, in the present case Singapore Airlines and Temasek , the investors in Vistara will need to invest once again in Air India when its condition is much worse than in 2001.

As an alternative view, if 100 % equity sale of Air India is unlikely to bring any financial joy to the Government why not consider a management contract for 30 or more years with a well established private airline/company while putting the entire government equity in a blind trust with the provision that there can be no government scrutiny by Parliament/CAG or inquiry by the likes of CBI etc of the management company. The Management Company so selected could have a revenue sharing arrangement with the government with the provision of some grace period to settle down. Sri Lankan Airline is a case in point when they handed over management to Emirates Airlines for sometime. The main reason behind this proposal would be to give the new management company a free hand to set the airline right without any interference as there would be no representation of government on the Board or management and with no restrictions on hire , fire or salary structure. It would be run like a private enterprise and government will get it back in running condition on completion of the lease period or with an option to continue. As shareholders the government will get a share of profits through dividends or some other arrangement . This would be a similar model to say The Taj Mahal Hotel on Mansingh Road in New Delhi. This might invite greater participation in the present context.

*Disclaimer: The views expressed in the article above are those of the authors' and do not necessarily represent or reflect the views of this publishing house. Unless otherwise noted, the author is writing in his/her personal capacity. They are not intended and should not be thought to represent official ideas, attitudes, or policies of any agency or institution.*