

Air India Revival: Policy Makers Should Plan

Nand L. Dhameja

Government has in principle approved the strategic sale of Air India by offering a 76 percent of stake. This paper presents a historical perspective of Air India, gives an overview of privatization experiences of airlines of different countries, stresses that revival would require professionalization of management first and privatization thereafter.. The paper also presents a critical analysis of possible alternatives for its privatization. Unbundling / separating core businesses and others and by the process of strategic sale, the airlines could be privatized. However, it has to be carried out with more rigor and austerity with a set time frame in a transparent manner guarding any situation of distress sale and also having due consideration of social factors.

Nand L. Dhameja is Professor, FMS, Manav Rachna International Institute of Research and Studies, Faridabad, E-Mail: nanddhameja@yahoo.co.in.

Introduction

Air India, the flag carrier airline of India, is the fourth largest domestic airline in the country in terms of passengers carried, after Indigo, Jet Airways and SpiceJet. It has the largest fleet of 140 planes in the country—including the brand new Boeing Dream liner planes, and flies to 41 international and 72 domestic destinations. It is the biggest international carrier from India with 14 % market share and controls 14.6 % of domestic passenger traffic. It reported a net loss of Rs. 3,837 crore in 2015-16 fiscal and Rs. 3,643 in 2016-17. The airline has accumulated losses of over Rs 50,000 crore, and is sitting also on a debt of about Rs 55,000 crore — about Rs 22,000 crore of loans taken to finance aircraft purchase and the rest for working capital. The airline has an annual interest outgo of Rs 4,500 crore, which accounts for about one-fifth of its total turnover. Despite the staggering amount of tax payers money being infused into Air India, it continues to bleed, and drains the coffers and the banks alike.

There have been talks about privatization of Air India, but every successive government has talked about its revival and has been pumping in money.

These have been more of political gimmicks and amount to throwing good money after bad. About two decades ago, it was during 1996-97, the Disinvestment Commission, an advisory body identified 40 Central Public Enterprises (CPEs) for disinvestment, made recommendations regarding the extent and modalities of disinvestment. Of these, 20 CPEs identified as core sector companies where disinvestment up to 49 percent was to be allowed, Air India was one but no disinvestment was made due to sluggish capital market (Dhameja & Sastry, 1998). Again, Naresh Chandra Committee in its Report in 2003, suggested privatization of both the airlines i.e. Air India and Indian Airlines, and creation of an autonomous civil aviation regulator; the report was shelved; and the then aviation minister, Mr. Praful Patel pushed for modernization of the fleet. Further, in 2012 a study commissioned by the Corporate Affairs Ministry recommended that Air India should be partly privatized; in 2013, the then-Civil Aviation Minister Ajit Singh stated that privatization was the key to the airline's survival. However, this also did not come through. Economic Survey 2017 focused on privatization of Air India and stated that while the private sector has a major presence in civil aviation, telecommunications, and financial services segments, and this has served to reduce the share of public sector undertakings (PSUs), but the PSUs have not exited these segments. Recently Niti Aayog, government's think tank, recommended for privatization of Air India quoting the examples of privatization of British Airways, Japan Airways and Austrian Airways. It was in March 2018 the

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Union cabinet gave an in-principle approval to a proposal for strategic disinvestment of Air India and transfer management control and sale of 76 percent stake. This paper presents the historical perspective of Air India, gives an overview of privatization experience of airlines of different countries and the lessons there from. Lastly, the paper presents strategies for successful privatization/revival of Air India.

Historical Perspective

The airline was founded by late J. R. D. Tata as Tata Airlines in 1932 and carried air mail from Karachi to Bombay's Juhu aerodrome. Initial service included weekly airmail service between Karachi and Madras via Ahmadabad and Bombay. In its first year of operation, the airline flew 160,000 miles (260,000 km), carrying 155 passengers and 9.72 tons of mail and made a profit of Rs. 60,000 (US\$930). Later, the airline launched a domestic flight from Bombay to Trivandrum with a six-seater Miles Merlin. In 1938, it was re-christened as *Tata Air Services* and later as *Tata Airlines*. During the Second World War, the airline helped the Royal Air Force with troop movements, shipping of supplies, rescue of refugees and maintenance of planes

Post-Independence (1946 onward): after World War II, regular commercial service was restored in India and Tata Airlines was converted into a public company on 29 July 1946 and was renamed *Air India Limited*. In 1953 Air Corporations Act (Air India Wikipedia) was passed and all Indian airlines were nationalized by creating two corporations – one for domestic service called Indian Airlines (IA) Corporation, and one for International service called Air International Corporation later abbreviated as Air India (AI) in 1962. The undertaking of Air India was transferred to and vested in Air India Limited, a public limited company registered under the Companies Act 1956, with effect from March 1, 1994, after the Air Corporation (Transfer of Undertakings and Repeal) Act 1994 came into effect. Indian Airlines merged with AI in April 2007 as Mumbai its headquarters. The combined losses for Air India and Indian Airlines in 2006–07 were Rs. 7.7 billion (US\$120 million) and after the merger, it went up to Rs. 72 billion (US\$1.1 billion) by March 2009.

The airline made an entry into the Guinness Book of World Records for evacuation of the most people by a civil airliner. Over 111,000 people were evacuated from Amman to Mumbai, a distance of 4,117 kilometers (2,558 m), by operating 488 flights from 13 August to 11 October 1990 – lasting 59 days. The operation was also carried out during Persian Gulf War to evacuate Indian expatriates from Kuwait and Iraq.

The airline received Rs. 23,993 crore equity infusion in the year 2012

and it was a part of the total Rs30,231 crore promised by the Government under a financial restructuring plan. However, the airline is sitting on prized real estate and its had fixed assets of Rs. 46,074.07 crore as of 31 March 2016, whereas its long-term borrowing was Rs. 35,806 crore. The airline has valuable tangible and intangible assets, which include bilateral flying rights, aircraft simulator for Boeing 777 & 787 Dream liner, thirty-three hangers, Aircraft Maintenance and Repair unit at Nagpur, a training centre at Hyderabad, besides, as mentioned earlier, a fleet of 140 planes. In addition, the properties owned included, vast land (about 32 acre) in Central Mumbai, earlier headquarter building at Marine Drive Mumbai, Housing colony (30 acres) at Vasant Vihar, New Delhi, Centaur Hotels at New Delhi, Mumbai and Srinagar. The airlines also own properties in London, Hong Kong, Nairobi, Japan and Mauritius, and some shares in Air Mauritius.

Privatization of Airlines of Different Countries

In this section, privatization process and experience of airlines of different countries are discussed. Firstly, privatization of airlines in European countries including British Airways, Austrian airways, Iberia airways of Spain and Lufthansa airways are discussed. Subsequently privatization of Japan airways, and Argentina airways are briefly presented. The privatization experiences would highlight the lessons relevant for Air India privatization and its successful restructuring.

Privatization of British Airways

The British privatization is one of the most extensive and largest programs carried out, as public enterprises in UK accounted for about 11 percent of the gross domestic product at factor cost in 1982. The privatization process in UK took the form of denationalization and deregulation and it obtained the support from Government and Conservative manifesto in 1987 (Dhameja & Sastry, 1998).

Legislation to privatise British Airways was passed by enacting Civil Aviation Act 1980 and efforts were made to improve its financial results, to restore its balance sheet, to repay the borrowings of £ 100 m, without assistance from the government. Later, British Airways Plc (BA) was established as a public limited company with the statutory capital of £50,000 under the British Companies Act 1980s; was issued with a certificate to trade under section 4 of the Act so as to allow it to take over the airline's business; property, rights, liabilities and obligations of the British Airways Board in the United Kingdom were vested in the company.

In early 1980s, BA was technically bankrupt (i.e. liabilities exceeded assets by roughly 250 million pounds), thanks to the implicit guarantee by the UK State (Alfredo Macchiati & Ferroviodello Stato, 2007), and its borrowings abroad, BA turned around, it showed large positive operating results; and by 1985, its net equity returned positive. It was only in January 1987 that the government sold its entire 100% stake in BA, valued at

900 million pounds, through an IPO which was heavily oversubscribed; staff was also offered some shares in the airlines. Thus the final decision of the timing of privatization of BA was to depend on the airlines financial performance, on the state of the stock market and on the general prospects for the airline industry.

The results suggest that a change from government to private ownership improves economic efficiency.

A study (Catherine Eckel, Doug Eckel & Vijay Singal, 1997) analyzed the effect of privatization on the performance of British Airways and found that the stock prices of competitors, U.S. Airlines, fell a significant 7%, implying expectation of a more competitive British Airways. Closer rivals of British Airways experienced a greater drop in stock prices than more distant rivals. Further, airfares in markets served by British Airways fell significantly upon privatization. The results suggest that a change from government to private ownership improves economic efficiency

Austrian Airline

Due to worsening of its financial situation, in particular after the refusal by Saudi Arabian investor, Mohamed to invest •150 million in the Austrian Airline Austria (AUA) Corporation, the AUA took the route of inviting bids for its revival on August 13, 2008 in accordance with EU privatization guidelines. The pro-

cess was structured and carried out by ÖIAG (OsterreichischeIndustrieholding AG) and investment bank Merrill Lynch. Number of airlines expressed interest in AUA and these included Lufthansa, Air France–KLM, Aeroflot, Royal Jordanian, Air China, Turkish Airlines and Singapore Airlines. Lufthansa's bid to acquire 41.56 percent share in Austrian airlines was finally accepted. As per acquisition arrangements, Lufthansa would acquire all of ÖIAG's shares in Austrian Airlines for EUR 366,268.75. ÖIAG would also receive a debtor warrant providing for a profit share based on the economic development of Austrian Airlines and the share price of Lufthansa compared to other airlines after three years. The maximum revenue from the debtor warrant was EUR 162 million and corresponded to the price of the public takeover offer.

On the conclusion of takeover transaction, Chief Executive Officer of ÖIAG (OsterreichischeIndustrieholding AG), Peter Michaelis, made the following statement about the conclusion of the transaction: "The sale we have concluded today is the right decision both for Austrian Airlines and for the business location surrounding Vienna International Airport in general. Partnership with Lufthansa consolidates the status of Austrian Airlines as a leading carrier in Central and Eastern Europe. At the same time, Austrian Airlines will remain a legally independent company, with its head office in Austria and its own brand, crew and fleet. In addition to this, the Lufthansa concept provides for the preservation of the long-haul connections that are so important for the location. The affiliation

between Lufthansa and Austrian Airlines therefore offers stability and opportunities for the Vienna hub and for the location as a whole (austrian airlines takes off,2008)

The Chairman of the Executive Board and CEO of Lufthansa, Wolfgang Mayrhofer, emphasized the benefits for both airlines and the location: "Europe needs a strong aviation sector. Only by combining our powers can we hope to find an answer to the global challenges currently facing our industry. For European business and Europeans as a whole, it is vitally important that we create an airline alliance consisting of profitably operating airlines. This is the only way we can hope to provide an infrastructure that meets the demands of customers. The consolidation of Lufthansa and Austrian Airlines is another step along this path. It enables us to strengthen our joint competitive position and makes us the strongest carrier in Europe. Austrian Airlines will be in a position to benefit from the economies of scale, market presence and competitive strength of Lufthansa – whilst at the same time maintaining extensive autonomy in key areas. Integration into our multi-hub system strengthens the product of Austrian Airlines, and can also offer Vienna International Airport good opportunities" (austrian airlines takes off, 2008)

Thus,as a part of privatization, Austrian Airlines would remain a broadly independent airline with its head office in Austria, its own brand, fleet and crew, and would be managed as a profit centre in the Lufthansa Group. Lufthansa had

agreed to maintain Austrian air traffic infrastructure to the greatest possible extent, taking into consideration the needs of Vienna as a business location, as well as continuing to expand this wherever commercially viable in line with the needs of the market. Austrian Airlines would retain a presence in the intercontinental aviation sector with its own long-haul fleet, and contribute its own specific key competence to the Lufthansa Group by continuing to build upon its Focus East strategy. At the same time, however, the consolidation with Lufthansa would also enable Austrian Airlines to develop its presence in European air traffic.

Apart from improved access to international passenger flows and joint international marketing, the benefits for Austrian Airlines would consist of using the cost advantages and economies of scale that would result from integration into the Lufthansa Group. Total synergies on the revenue and costs side were estimated at around EUR 80 million p.a.

In the words of Austrian Airlines CEO, Alfred Ötsch, “We are pleased that it has proven possible to reach an agreement between ÖIAG and our alliance partner of many years, Lufthansa. The strategic concept removes our structural weaknesses, such as a lack of international sales strength and disadvantages in purchasing. Together with our own measures, this will enable the almost total retention of our network strength. As a result, the benefits for our customers can be retained. None of this would have been possible – even with a great deal of additional capital – had we tried to go

it alone”. (austrian airlines takes off, 2008)

Iberia Airline (Alfredo Macchiati & Ferroviedello Stato, 2007),

Liberia Airline founded on June 28th 1927, operated mainly from Madrid airport. It was a state-owned airline until 1999 (although employees had a 5% stake). Iberia restructuring started around 1997. With the main initiative called “Employment Conditions Unifying Pact”, which unified contract terms for pilots, cabin crew and ground personnel of Iberia and the newly acquired company Aviaco. In 2000 a four years lasting labor agreement was signed, linking salary growth to the actual Consumer Price Index dynamics. Following an agreement with the government on September 11, a “Redundancy Procedure” was signed, allowing a dismissal of 2,500 employees. Iberia Airline sold its stake in Areolinas Argentinas and also a 6.7% stake in the software company Amadeus yielding a gross capital gain of 390 million euro in 2000. Cost optimization was the other pillar of the restructuring initiatives as in 2000 Iberia’s unit cost was below the industry average (notwithstanding average stage length lower than Air France and British Airways). On the commercial side, Iberia reinforced its leadership on the routes between Spain and Latin America and the market share differential against other competitors (mainly Air France) increased substantially (from roughly 1% in 1997 to 4.7% in 2000). In the subsequent years Iberia started a plan to cut costs and boost productivity (“Master Plan 2002-2005”), reducing

commissions to tour operators by 4%, and to reduce employment (“Labor Force Reduction Plan”); in the mean time, Iberia divested from many non-core sectors and opened new long-haul connections. Cost cut was realized also through fleet renewal and partial reduction in aircraft models; in 2000 the state sold a 41% stake to private investors (5 Spanish institutional investors, British Airways and American Airlines) through a private deal. Subsequently, Iberia was listed through an IPO in 2001 in which the state sold its residual stake of roughly 54% (Alfredo Macchiati & Ferroviedello Stato, 2007).

Deutsche Lufthansa AG (Wikipedia)

Commonly known as Lufthansa (also called *Lufthansa German Airlines*), is the largest German airline; when combined with its subsidiaries, it is the largest airline in Europe, in terms of fleet size, and the second largest airline in terms of passengers carried during 2016. Lufthansa was a state-owned enterprise (and flag carrier) until 1994, it involved its employees in profit sharing, giving them the opportunity to choose between cash and preference shares since 1970. The company raised fresh equity through right issue and the government reduced its stake through disinvestment by offering shares to public, brought down its controlling right to 37.5 percent and thus the company was fully privatized by 1997. As a privatization process, the company carried out restructuring by divisionalising the company and some of the divisions were transformed into separate subsidiaries. Lufthansa Cargo, a subsidiary in India, and Asian catering ser-

vices, the biggest airline caterer, in the world are examples of two such divisions. Further, financial restructuring, was carried out under which the government agreed to inject 1 bn. DM to cover the large pension deficit accumulated over the years and constituted a separate Lufthansa Pension Fund. In 2014, 60% of Lufthansa’s shares were held by institutional investors, the remaining 40% were held by individual stock owners. On privatization, its employees comprising 118,781 received more than 3% of its shares.

Its shares have been publicly traded on all German stock exchanges since 1966. In addition to floor trading, it is also traded electronically using the Xetra system. It is a DAX index share and is listed in the German Stock Exchange’s Prime Standard. In addition to its main passenger operations, Lufthansa has several wholly owned and partly owned airline subsidiaries.

Japan Airlines (Japan Wikipedia),

Recognizing the need for a reliable air transportation system to help Japan to grow in the aftermath of the World War II Japan Air Lines Co. Ltd (JAL) was established on 1 August 1951 with an initial capital of ¥100 million; and its headquarters located in Ginza, Chûô, Tokyo. In 1972, JAL was granted flag carrier status to operate international routes and was also designated to operate domestic trunk routes in competition with All Nippon Airways (ANA). Late 1970s Japan government was considering airline deregulation and it was only in 1987 Japan Airlines was completely privatized, and was to compete with the other two

airlines in Japan, namely, All Nippon Airways (ANA) and Japan Air System (JAS), on domestic and international routes. With the increased competition, Japan Airlines' corporate structure, was reorganized into three divisions, namely: international passenger service, domestic passenger service, and cargo (including mail) service.

Japan Airlines suffered steep financial losses in 2009, despite remaining Asia's largest airline by revenue. As a result, the airline embarked on staff cuts, route cutbacks in an effort to reduce costs, and received a ¥100 billion through capital injection and credit from the Japanese government as part of the proposed bankruptcy. Further, a task force was formed by the Japan's Ministry of Land, Infrastructure, Transport and Tourism to work out a proposal for the turnaround of JAL. On its application on January 19, 2010, under the Corporate Rehabilitation Law, JAL would receive a ¥ 300 billion cash injection and debt waiver of ¥ 730 billion, in exchange for which it would cut its capital to zero, cut unprofitable routes and reduce its workforce by 15,700 employees. On restructuring, JAL planned to cut its workforce by 19,133 from that of 467,000 by the end of 2015 and increased its capacity to make the business viable. JAL turned around, and its passenger number increased.

Latin American Privatization Countries (Dhameja & Sastr, 2002)

Latin American economies experienced high inflation, and suspension of

international debt-service, and its having the characteristics of export of primary goods and high terms of trade volatility, its public enterprises were supported with subsidies. With economic reforms in 1980s and early 1990s, many countries had varied experiences and had different degrees of privatization. As a part of economic reforms, privatization process in Argentina had the features that it was mainly confined to giant enterprises like petroleum, international airlines, telephone, roads, etc.; the privatization was total, divesting shares to foreign investors, employees by having a well-diversified share distribution and debt-equity swaps. Privatization had positive effects like, fiscal deficits, relieving the state from pumping in additional funds, higher capital formation by private sector, and better service to customers.

Air Transport in Argentina i.e. Aero Lines Argentina (AA) international airlines was privatized by inviting bids for 85 percent shares, 10 percent retained for employees and five percent to be held by the government, fixing the base price of US \$ 623 million (US \$ 530 million for the 85 percent), the government to absorb all liabilities.

AA privatization followed large tariff increase to get a higher price in the sale. Bids were invited from international airlines and in the first phase, the bidders interested were shortlisted on the bases of their background, their proposed plan of action; and in the second phase there were bids for the best price and investment plan. The terms of payment were in cash and resumption of foreign debt.

Bid by the group formed by the Spanish Airline Iberia and series of Argentine Companies was approved for a consideration of US \$ 130 million (a part down payment and other to be paid in ten years) and resumption of external debt of US \$ 1.61 billion (approximately US \$ 322 million of market value). The group agreed to obtain fifteen new planes between 1991 and 1994. Due to default in payment by the bidder, the airlines was partially re-nationalized in August 1992, the government retaining the right to have fresh equity of 33 percent instead of the original 5 percent. Privatization of AA had positive fiscal results, but the effects on investment in the industry are stated to be poor.

Relevant Lessons

From the experiences discussed above, lessons relevant for privatization of airline would include (Dhameja & Sastry, 2002):

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- o Privatization is more of a political decision, though it involves economic analysis as well;
- o Privatization is a part of a structural adjustment program, is a policy matter to be decided by legislature entailing types of privatization and also measures to assuage the concerns of employees and employee unions and other beneficiaries.
- o The region that has successfully carried the highest number of airlines privatization is Europe
- o In Western Europe privatization tended to follow the IPO route
- o Key leanings from privatization across the world are as:
 - o There is no one size solution to all privatization

As regards the timing of privatization, factors to be considered include: airline's financial performance, the state of the stock market and on the general prospects of the airline industry.

Financial health of the airline: Carryout financial restructuring to make the balance sheet a healthier one in terms of portability and debt outstanding. A study (Alfredo Macchiati & Ferroviedello, 2007) shows that fully privatized airlines have undergone a deep restructuring much before the privatization, with the State bearing most of the related financial cost and had taken over the main domestic competitors. For example, in British airline, though the process started in 1980, privatization was finally done in 1987 after the airline balance sheet had turned healthier. Similarly, to cover the liability on account of pension deficit, the German government agreed to inject one billion DM.

It would be pertinent to mention a study by Capa Analyst (Capa Analyst team, 2018) team on the trends in privatization of airlines across the world. The analysis shows as:

- o IPOs have worked well for larger airlines, while those needing more active support from a partner have fared better through a trade sale
- o Two requirements for successful privatization are:
- o A track record of profitability
- o No government interference in the running of the airline

As mentioned earlier, privatization can take different forms as: public offer, strategic sale by offering ownership and control, or management buyout, or employee buy-out.

Privatization of any type involves political and economic decisions; in this regard, the International Finance Corporation (IFC) has described the process and various factors involved in privatization under the caption, "Privatization is a Two-Horse Cart". It goes as:

"To privatize, is to drive a two-horse cart. The cart is the enterprise in question. One horse is called Political Goal and is flighty and fickle, the other is called Economics, and is slow and steady. They have to pull the cart along the Road to Privatization, which is rough, boulder-strewn track. The cart is full of cases of vintage wine, which is unfortunate because the horses, as often as not, are pulling in different directions. The bottles of wine, which can be enjoyed only when the cart reaches its goal, are labeled *improved, high sale price, effective cor-*

porate governance, economic investment and so on"

"Only the most skilled driver can negotiate this track: up the hill of vested interests (cases may have to be jettisoned here, and some horses are not strong enough to make it), across the stream of xenophobia (another case or two bumps off the back). Some carts are too weak and fall apart before they get to Privatization. Sometimes it makes sense to give the flighty horse its head and fly the trail headlong, abandoning case after case on the way; sometimes it is possible to whip him into shape to follow his steadier partner. And many drivers simply give up, cut the horse loose, climb down and start back down the trail hoping to find solace in the odd bottle than has not smashed" (International Finance Corporation, 1995)

Air India Privatization: Way-out

The Government has given in principle approval for the strategic disinvestment of Air India by way of transfer of management control and sale of a 76 percent stake in Air India Ltd along with 100 percent stake in low-cost international carrier Air India Express Ltd and 50 percent stake in Air India SATS Airport Services Pvt Ltd, an airport ground-handling joint venture. In addition, the acquirer will have flying rights to most important countries, right of precious slots at key airports like, London Heathrow, and Frankfurt, which are most valuable, large fleet of wide bodied as well as narrow bodied aircrafts. These are added attraction as each slot is very precious

and it is difficult to obtain slots abroad; for example, a London Heathrow slot was sold in 2016 for about \$ 75 million and Air India has four such slots in Heathrow alone (Tarun Shukla, 2017).

The expressions of interest (EOI) have been invited from companies having net worth of Rs. 5,000 crore and should have reported profit after tax in three years of the five previous years. It also allows companies with a negative net worth to submit a bid, as long as they are in a consortium which satisfies the net worth and other requirements. The highest bidder will have to remain invested in the company for three years before any stake sale, except for a compulsory listing of Air India. The Government's residual stake sale in the Air India in the market will not be a block sale but will be offered to employees as employees stock option plan (ESOP). Though full foreign ownership is allowed in airlines in India, foreign carrier cannot buy more than 49 percent stake in Air India. Further, Air India potential investor has been exempted from the market regulators takeover code, which prescribes an offer in case of acquisition beyond 26 percent.

It is a plug-and-play offer as to create an infrastructure of this kind would take years.

It is a plug-and-play offer as to create an infrastructure of this kind would take years, a number of airlines and business houses, both domestic and foreign, have shown interest, though by some it

is a mixed reaction. These include IndiGo, Jet Airways, Tata sons, Turkey's Celebi Aviation Holding, Bird Group, Menzies Aviation Plc., Livewel Aviation Services Pvt Ltd and many others. As per the Expression of Interest, the bidder need not be involved in aviation.

Bidder, as a business proposition, would certainly like to have a profitable business venture and so would like to have flexible terms, though the bidder would be entitled the tax benefit on account of accumulated losses of Rs. 32,194 crore and unabsorbed depreciation of around Rs. 31,805 crore. The objective should be that the bidder should have necessary managerial and financial competence to improve operational efficiency, and turnaround the airline. The issues of concern are:

- ◆ How to build sustainable and maintain brand equity of Air India?
- ◆ How to protect and integrate employees' interests?
- ◆ How to settle past liabilities and outstanding debt?
- ◆ How to take care of the social obligation to evacuate stranded Indians from war-torn countries, transport people in crisis zone?
- ◆ How to meet obligation towards retired employees and to operate Boeing 747 that fly the Head of the State?
- ◆ How to take care of the remaining divisions and assets after disinvestment?

In this regard, key performance indicators for the functioning and working of an airline include:

- Load factor, i.e. filling up flights
- Better on-time performance
- Higher aircraft utilization
- Greater passenger satisfaction index
- Cost per available seat km (CASK)

Air India has been constantly failing on the above indicators (Gopinath, 2017) as:

- ◆ CASK, a benchmark measuring airline efficiency is the highest for AI, which is four-times of IndiGo and five-times of AirAsia;
- ◆ AI has 475 employees per aircraft while Indigo has 70. Since about 30 percent of AI aircrafts, at any given time, are on the ground because of slack maintenance or want of parts, the number of employees per aircraft becomes even more shocking.

Any attempt to revive the ailing airline, considering the above factors, would require professionalization of management and also grant of autonomy. In this regard, it would be pertinent to mention that governments the world over have stepped back from owning airlines and hotel chains. Only two full service government airlines world over are efficient and profitable namely, Singapore Airlines and Emirates. These two airlines are government owned but not government run. In view of the above, revival/ privatization of Air India would require

restructuring and streamlining financial health of the airline by downsizing its debt, and right sizing it in terms of number of employees. Privatization of British and Austrian airlines was done after repayment of their respective debt, and also right sizing the airlines both in terms of finances and employee strength.

Air India would require restructuring and streamlining financial health of the airline by downsizing its debt, and right sizing it in terms of number of employees.

For that purpose, the airline could be unbundled putting core business and other businesses into separate bundles. Core business of the airline to carry out air services as a bundle, as mentioned above, has been proposed to be disinvested. Other challenges including past liabilities and outstanding debt, personnel issues, operational freedom could be taken as some of the other bundles. The finances have to be restructured and the government has reported its willingness to transfer Rs. 33,000 crore of the existing debt to a SPV and the remaining will be a business debt committed for acquiring of new aircrafts. Liquidating of prized real estate in Delhi, Mumbai, Srinagar, London, Hong Kong, Nairobi, Japan and Mauritius; and surplus assets not linked with the core business could be a better alternative source for financial restructuring. Advanced technical engineering workshop at Nagpur to maintain and repair jobs, owned only by an Indian airline could be another money spinning bundle and could be sold off later.

Another bundle would comprise All India Engineering Services, Air India Air Transport Services, Airline Allied Services, Training Centre and aircraft simulator for Boeing 777 and 787 Dreamliner. Similarly, to bring the airlines to the right size in terms of number of employees, almost difficult point of concern for any revival strategy; sale proceeds from the real estate, as mentioned above, could also be used to finance well-structured golden handshake scheme. Other tangible and intangible assets like, the largest collection of rare modern Indian art work would be another bundle.

Unbundling has been found to be an attractive, both financially and administratively, process of revival. Proposal to disinvest 76 percent and not to make block sale of residual 24 percent stake is intended to grant autonomy. This process of strategic sale to a bidder, domestic or foreign, is expected to complement the existing strength of the bidding enterprise with a view to impart long-term viability (Dhameja, 2006). Disinvestment of IPCL, HZL, and VSNL are some of the successful examples of strategic sale during initial years of 2001.

In short, Air India revival/ privatization would involve unbundling into three-five bundles (Gopinath, 2017), all the bundles though are important and their processing could be undertaken simultaneously; however, the bundle of liquidating of debt and right sizing in terms of number of employees, as per the experience of British and Austrian airlines, has been a big stumbling block and has to be steered with caution.

As mentioned earlier, the government has decided to privatize Air India; in this regard, the process of disinvestment would primarily involve consideration of the following:

- Having decided to disinvest 76 percent stake in Air India, identify various other possible bundles/sub-bundles, with the details for each,
- to form various expert groups to steer the bundles with the likely time frame,
- to pay particular attention for the agencies, including employees' associations revolting or resisting the privatization program and measures to nullify their anti-privatization program
- to look into the aspects of facilities available to VVIPs or members of Parliament; socio-economic services for evacuation of stranded passengers or services for the movement of defense personnel and goods.

The above proposal to reform Air India, though appears to be attractive, simple, cost-effective, and economically sound; it has a huge political cost as certain political and social interests would like to strike it down. It was during 1999-2000 to 2003-04, disinvestment was more of strategic sale by transferring control to private investor; it was more of a step towards privatization and was to bring in market forces and as such shares of about two dozen central public enterprises (PSUs) were disinvested by transferring ownership (Dhameja, 2007). The same process has to be carried out with

more rigor, austerity and firmness; the ruling government having a thumping majority has to steer it through with a time frame, but should guard against the situations of any distress sale or compromising with the proposed terms of sale, or also of reducing the originally reserve price fixed for disinvestment during 1991-92, after receipt of bids as no bid could have been accepted at the reserve price originally fixed (Dhameja & Sastry, 1998)

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