8. Air India sale: 100% FDI by NRIs

Prelims Level: **Infrastructure Road, inland, Railway aviation, Housing, Rural & Urban**

Mains Level: **GS-III Effects of liberalization on the economy, changes in industrial policy and their effects on Industrial Growth.**

Context:

- Recently, the cabinet approved 100 percent Foreign Direct Investment (FDI) in Air India by foreign entities/NRIs under the automatic route. Earlier, the FDI limit permitted for NRIs was 49 per cent. This is considered to be a major development in the run-up to the Air India sale process, expected to be completed by this year.

Air India:

- It was founded as Tata Airlines (division of Tata Sons Ltd) in 1932 by J R D Tata
- In 1946, it became a Public Ltd Company with the name of Air India
- The government nationalized the carrier in 1953 and passed Air Corporations Act 1953, which provided the monopoly rights to Air India and its associates.
- This act was repealed after a standing committee headed by Pramod Mahajan recommended for it in 1993 and since 1994 the private sector players are allowed to participate in the aviation business
- In 2007 the decision to merge Air India with Indian Airlines to form NACIL (National Aviation Company of India Ltd) was taken.
- The merger is based on the recommendations of Justice Dharmadhikari committee report.
- The objective was to ensure lower administrative costs and other services.
- AI and Indian Airlines had been running profitably till 2005–06.
- It is commented that the merger of Air India with Indian Airlines has created woes due to lack of effective leadership and erroneous government policies.

Reasons for the failure of Air India:

Decision Making:

- Decision making is not quick enough due to the red tapism at different stages and there were various constraints on the operations.

The Rising Fuel Costs:

- The rising fuel costs have led to higher cost of operations which have eaten up the profit margins

Competition:

- The AI has been competing with private sector airlines which are more efficient in terms of ticket pricing, decision making, choosing the right routes, providing value-added services, etc.

AI and Indian Airlines Merger:

- The ill-timed merger was the biggest reason as it led to huge losses

Overstaffing:

- The number of staff/workers is very high compared to industry standards

Failure Gaining Momentum:

- Air India's precarious financial situation was first made public in June 2009.
- But the government, instead of tackling the core problem of the lack of a strategic and operational direction within the airline, decided to focus on a financial package.
- The bailout package of over Rs.30,000 crore, which is being infused over an eight-year span ending 2021, has not helped Air India evolve into a robust carrier.
- In 2017, NITI Aayog recommended disinvestment but the government, in its wisdom, decided to not only retain 24% equity, it also wanted the acquirer to absorb a major chunk of the non-aircraft related debt.

Present Situation:

- The government has put Air India for disinvestment.
- It is driven by the Centre's anxiety to get rid of the airline. Thus, it can spare itself of the responsibility of further infusion of funds.
- The reality is that the airline's survival depends on several factors, most notably
- induction of a professional management with an effective leadership,
- a sound financial package that does not come with political interference in its day-to-day operations, trade unions allowing reasonable changes in work conditions and pay packages. After a failed attempt at Air India divestment in 2018, the government in January 2020 invited bids again for privatising the airline.
- Learning its lesson from the 2018 failure, the preliminary information memorandum states that 100% stake will be offloaded, unlike 76% offered in the previous attempt.
- However, the new owners would be required to continue to use the "Air India" brand name. The government has also retained a provision that substantial ownership and effective control of the airline must remain with an Indian entity.

Why are There No Buyers?

- The airline's poor financial situation is what makes it largely unappealing.
- The airline had a debt burden of around ₹48,781 crore as of March 2017, which poses a huge financial risk to a buyer.
- Though the government has offered to transfer some of the debt to a special purpose entity, a buyer will still have to assume responsibility for debt of around Rs.30,000 crore after acquisition – still a significant burden for many.
- Apart from the huge debt burden, Air India has also been losing money for over a decade, with accumulated losses
- A major reason behind its huge losses is the cost of paying interest on its massive debt.
- Some analysts believe that Air India may not be worth anything to its buyers as they are unlikely to obtain any free cash flow after paying money to lenders.
- In fact, they may have to pay money from their own pockets if they assume personal liability for the debt.

100% FDI by NRIs:

- The FDI (foreign direct investment) policy would be amended to allow NRIs who are Indian nationals to own up to 100% of Air India "under automatic route".
- Besides Air India, the government is also offloading its 100% stake in its low-cost subsidiary, Air India Express (AIXL), and 50% of AISATS, which provides cargo and ground handling services at major Indian airports.
- Apart from reducing the debt of the loss-making airline, the government has made a number of changes in the eligibility criteria for prospective bidders.
- Government had made changes so that the buyer would have to take over debt and liabilities worth Rs 32,986 crore, against around Rs 85,000 crore earlier.
- This means that the prospective buyer would now have to take over only 39% of the total debt and liabilities, unlike 61% in the 2018 bid document.
- The disinvestment of Air India would not just add to the government's non-tax revenue next fiscal but also stop persistent loss to exchequer. The government has set an ambitious disinvestment target of Rs 2.1 lakh crore for FY21, against a revised Rs 65,000 crore for this fiscal. This part of disinvestment is highly necessary for the government to plug in the fiscal deficit amidst the chaos of slumping economy and a gloomy future in trade due to the Corona outbreak.