

Concern's with Air India Disinvestments

Why in news?

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The deadline for submitting Expressions of Interest ran out and there were no bidders for India's flag carrier Air India.

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What was government's plan on Air India disinvestment?

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- In June 2017, Union government announced its intention to divest a controlling stake in Air India.

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- As a response unsolicited interest poured in from airlines and various ground handling firms, both domestic and international, for specific pieces of the flag carrier.

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- On March 28 this year, the government came out with a preliminary document seeking bids.

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- In 19 days that followed, it received over 160 queries from various parties seeking clarifications about the disinvestment process.

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- But after all this activity, the government recently announced that at the end of the deadline for submitting Expressions of Interest (EoIs), it had received no bids from any entity to acquire 76% stake in Air India.

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What are technical difficulties involved in air India bidding?

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- Air India has Rs 33,000-crore debt that was to be bundled with the firm which is seen to be a major hurdle.

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- AI has the largest number of employees per aircraft among Indian airlines.
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- AI had 26,978 employees (including permanent, contractual, casual, and on-deputation staff) which is 234 employees per aircraft.
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- The employees-per-aircraft ratio is a key metric used in the industry to identify the operational efficiency of an airline.
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- But eventual reduction of contractual employees was one of the measures to be undertaken by Air India as part of its turnaround plan.
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- For which the successful bidder will have to plough significant funds into enterprise-wide restructuring, requiring capital expenditure in enhanced products and services, as well as fleet expansion.
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What conditions of the government averted the bidders?

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- It is believed that government's decision to retain 24% stake that ultimately proved to be the big deterrent.
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- In clarifications sought by interested bidders, government failed to outline its financial objectives and also to explain any non-financial objectives for which the retention of a stake is considered to be important.
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- The Union cabinet's approval for strategic disinvestment includes only few areas of airline operations and not the complete operations of the airlines.
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- Returning the carrier to profitability is likely to take at least 2-3 years, during which time the new owner will have to absorb a couple of billion dollars of losses.
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- Thus, this leave open the prospect of political interference on strategic and day-to-day matters of the airline operations.
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Source: Indian Express

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