

Memorandum for Air India Disinvestment

Why in news?

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Civil Aviation Ministry has recently released a preliminary information memorandum (PIM) for prospective bidders for Air India (AI).

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What is going on with Air India?

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- In 2016-17, the airline suffered a net loss of around Rs. 5,700 crore, owing mainly to its high interest costs.

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- Undoubtedly, debt has been the major reason for AI's losses in recent years.

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- But besides, operational inefficiencies and poor management have also been concerns for long.

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- In response, the Union Cabinet gave an in-principle nod for offloading the government's stake in Air India a few months back.

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- The final moves for going ahead with privatisation are on now.

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What does the memorandum specify?

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- According to the PIM, the Centre will divest 76% of its stake in AI.

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- It has sought an expression of interest (EoI) from bidders.

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- A 100% stake is being offered in its subsidiary Air India Express.

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- A 50% stake is on offer in its ground handling operations arm.

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- The government is expected to offload its residual 24% stake at a later date.
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- This is on the hope of a better valuation after the new owner has fixed the airline's legacy issues.
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- Foreign airlines or foreign consortium partners can pick up 49% equity in the airline.
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- This is allowed only if the chairman and at least 2/3rd of directors are Indians and effective control vests with Indian nationals.
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- A minimum of 27% equity must remain with Indian entities.
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- Other subsidiaries, such as Alliance Air, Hotel Corporation of India, Air India Air Transport Services and Air India Engineering Services are not being sold.
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- These will be transferred to a special purpose entity along with roughly a third of AI's outstanding debt (total - around Rs. 48,000 crore).
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What is the concern?

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- The bidders will be informed of the details and logic of reallocation of the liabilities between AI and AI Express only at a later stage.
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- Effectively, the government is offering a majority stake in AI and AI Express with management control.
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- However, this comes with a cumulative debt burden worth around Rs. 33,000 crore as well.
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- For prospective buyers, AI's international flying rights and slots would be attractive.
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- However, this advantage would be offset by the possibility of taking on so much debt.
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- Devising a plan to bring it down or refinance the loans would be a huge challenge for the investors.
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What are the implications?

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- It is to be seen if the government's recent decisions are really attractive for the investors.
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- The uncertainty over the debt burden will make it difficult for the investors to offer a lucrative price to the government.
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- Despite these, the real benefit of privatisation will be that the airline will no longer drain taxpayer funds.
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- This is because thousands of crores have been infused over the years to keep Air India up and running.
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Source: The Hindu, Financial Express

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