Air India revival

Why in news?

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The central government has proposed some measures to pave the way for revival of Air India.

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What are the proposals?

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- The government is planning steps to give significant autonomy to Air India's (AI's) board, in terms of capital expenditure and commercial decision-making.
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- **Special purpose vehicle** - AI's balance sheet is saddled with a debt of around Rs 500 billion and the company spends around Rs 50 billion annually as interest payment.
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- High debt burden is one of the primary reasons for failing to generate any interest from the market.
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- Hence, the airline's debt will be restructured with around Rs 300 billion of total debt is proposed to be transferred to a special purpose vehicle.
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- **Support** - Further, around Rs 150 billion will be provided to the airline as cash or sovereign guarantee.
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- Using government guarantee, the airline can raise money from lenders at cheap interest rates.
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- However, the autonomy of AI's board will depend on condition that the company will not seek financial support from the government after 2018-19.
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- **Plan** - The plan is meant to empower the airline's board to take important business decisions like –
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1. buying or leasing new aircraft
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2. raising capital by mortgaging assets
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3. hiring professionals at senior managerial positions
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4. rationalising the workforce through voluntary retirement scheme.
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- Currently, AI needs permission from the Ministry of Civil Aviation for these matters.
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- The plan is also to make the board responsible for selling AI's subsidiaries and monetising non-core assets like real estate and land parcel.
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- **Operations** - It is learnt that the airline will hire a chief operating officer (COO) who will report to the chairman and managing director and will be responsible for day-to-day operations of the airline.
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- He/she will also implement strategies for cost-rationalisation and improving efficiency.
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- Professionals will also be roped in for strategic positions such as head of network planning and chief commercial officer.
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- **Focus** - The focus will be to increase the efficiency of the airline by strengthening the autonomy of the management in line of Navratna and Miniratna enterprise, so that they don't have to come to the government for approvals.
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- Under government guidelines, the boards of profitable enterprises, which are classified as Navratna and Miniratna companies, are given the powers to take commercial decisions without moving the nodal ministries for permission.
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- **Board** – The board should have professionals with a deep strategic understanding of the business and proven credentials in commercial and planning domains and expertise in restructuring of large organisations.
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- As part of the process, top industrialists have already been inducted as

independent directors.
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- The government will have a representation in the board through a single nominee.
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- There is also a suggestion that an accomplished executive be identified from an Indian public sector unit, with a demonstrated track record in delivering results in difficult circumstances to get appointed in the board.
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- All these measures should enable the airline to be able to sustain its operations from internal resources from the next fiscal year.
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What are the problems?

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- The government has been a relatively generous shareholder, infusing almost Rs 250 billion in equity since 2011-12.
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- It was done to repair the damage wrought by forcing the airline into expensive aircraft purchases.
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- However, Air India holds an accumulated loss of Rs 7 billion on revenues of Rs 22 billion and a debt burden of Rs 465.7 billion.
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- The plan to transfer about Rs 300 billion of debt to a special purpose vehicle creates only an illusory improvement to the profit and loss account.
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- The existing debt still has to be serviced, whether on the books or off it.
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- Further, the board autonomy is questionable when the chairman and managing director is an Indian Administrative Service Officer, and two of its members are from the ministry of civil aviation.
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- As part of the move towards autonomy, the board has inducted four independent directors.
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- However, only two of them have knowledge of the aviation business.
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- Experience has also shown that independent directors, however weighty their reputation, cannot be relied on to enforce the kind of hard decisions vital to turning around this ailing airline.

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- This makes board autonomy or lack thereof unlikely to make a major difference.
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What are the measures needed?

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- Revival is possible only if Air India ceases to be an airline for government servants and their families and if union power is curtailed.
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- The airline is overstaffed but employee cutbacks are invariably fiercely contested.
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- Airline should also have been wielded with the potential to attract managerial talent from the market.
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- Hence all these hurdles have to be negotiated and board autonomy is only a partial solution to a larger issue plaguing it.
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Source: Business Standard

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