Memorandum for Air India Disinvestment

Why in news?

\n\n

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

\n\n

What is going on with Air India?

\n\n

\n
- In 2016-17, the airline suffered a net loss of around Rs. 5,700 crore, owing mainly to its high interest costs.
\n
- Undoubtedly, debt has been the major reason for AI's losses in recent years.
\n
- But besides, operational inefficiencies and poor management have also been concerns for long.
\n
- In response, the Union Cabinet gave an in-principle nod for offloading the government's stake in Air India a few months back.
\n
- The final moves for going ahead with privatisation are on now.
\n

\n\n

What does the memorandum specify?

\n\n

\n
- According to the PIM, the Centre will divest 76% of its stake in AI.
\n
- It has sought an expression of interest (EoI) from bidders.
\n
- A 100% stake is being offered in its subsidiary Air India Express.
\n
- A 50% stake is on offer in its ground handling operations arm.

\n
- The government is expected to offload its residual 24% stake at a later date.
\n
- This is on the hope of a better valuation after the new owner has fixed the airline’s legacy issues.
\n
- Foreign airlines or foreign consortium partners can pick up 49% equity in the airline.
\n
- This is allowed only if the chairman and at least 2/3rd of directors are Indians and effective control vests with Indian nationals.
\n
- A minimum of 27% equity must remain with Indian entities.
\n
- Other subsidiaries, such as Alliance Air, Hotel Corporation of India, Air India Air Transport Services and Air India Engineering Services are not being sold.
\n
- 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).
\n

\n\n

What is the concern?

\n\n

\n
- 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.
\n
- Effectively, the government is offering a majority stake in AI and AI Express with management control.
\n
- However, this comes with a cumulative debt burden worth around Rs. 33,000 crore as well.
\n
- For prospective buyers, AI’s international flying rights and slots would be attractive.
\n
- However, this advantage would be offset by the possibility of taking on so much debt.
\n
- Devising a plan to bring it down or refinance the loans would be a huge challenge for the investors.
\n

\n\n

What are the implications?

\n\n

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

\n\n

\n\n

Source: The Hindu, Financial Express

\n

