Revival of Air India

What is the issue?

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- The issue of whether the airline has a future has been frequently posed, especially in the era of growing private airlines.
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- But Minister of State for Civil Aviation believes the government can still revive the carrier.
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What is the condition of Air India?

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- Air India has the reputation for making consecutive losses.
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- It recorded an operating profit in fiscal 2015-16 after almost a decade.
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- It was mainly due to a fall in oil prices, but still ended the year with a net loss.
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- Years of consecutive losses have also ruined its overall financial position and pushed the airline into a debt trap.
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- In 2011, a group of public sector banks that gave working capital loans to Air India was forced to reduce the airline’s debt load.
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- A bailout package of over Rs. 30,000 crore was also extended by the Centre in 2012 to deal with losses.
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- Yet, by the end of 2015-16 Air India still carried a debt load of about Rs. 46,000 crore.
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- The cost of paying interest on the debt alone was putting huge pressure on earnings.
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What are the actual problems?

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- The above mentioned situation has led many people to believe that the airline has problems with its capital structure.
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- The government is working on a plan to improve the airline’s financial position, corporate governance, and management.
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- The government’s plan is unlikely to work because main problems that surround Air India are structural.
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- It also ignores the reality that the debt burden is the product of bureaucratic mismanagement and operational inefficiencies, including overstuffed workforce.
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- The public ownership has also left the carrier’s management subservient to the interests of the political class.
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What should be done?

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- These issues can be adequately addressed only if there is a change in ownership.
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- But Private buyers are unlikely to come forward to buy Air India, as its debt load easily eats up any operating profit.
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- In that case the government can either force public sector lenders to incur more losses, or use public funds to pay them out.
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- Either way, it is not worth spending more government funds on Air India’s revival
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- A profitable private airline can easily fill any vacuum left in the market by Air India’s exit.
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Source: The Hindu

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