

- Article rank
- 11 Apr 2018
- mint ePaper

AI'S PRIVATIZATION FACES TURBULENT WEATHER

Less than a fortnight into the government's ambitious program to privatize Air India, two of the most promising suitors have already indicated they are going to pass. First InterGlobe Aviation that runs IndiGo, and then Jet Airways—who between them have a 55% share of the Indian market, said the buy-all-or-nothing terms of the sale didn't work for them.

The decision by the two airlines is significant since it is a cue for other potential buyers. What's worse, read along with what InterGlobe Aviation president Aditya Ghosh said in his statement, it is a serious portent of the business prospects for the privatization plan.

"We do not believe that we have the capability to take on the task of acquiring and successfully turning around all of Air India's airline operations," said Ghosh.

Without a doubt, IndiGo was one of the strongest possible suitors for Air India. Its balance sheet and operational record would suggest that if anyone could have turned around the stricken national carrier, it was the runaway Indian market leader.

In the first place, it has the lowest cost base among all Indian carriers in relation to the number of passengers it carries and given its number of flights—1,000 per day—as well as a remarkable on-time rate thanks to its excellent passenger handling metrics. Its return ratios also indicate very efficient capital allocation and while it has run into problems with the Pratt & Whitney engines on its new A320 Neo aircraft, there's a reason why it has ordered them—the new engines will burn considerably less fuel and lower maintenance costs.

All of these virtues match almost exactly what Air India's survival kit should look like. Without them, its chances of emerging from this exercise with hopes of a revival are very slim.

The aviation business worldwide has enjoyed a rare period of sustained growth. In addition, Indians are taking to the skies in ever growing numbers.

The Mumbai to Delhi air route is now the third busiest domestic route in the world, with Bengaluru-New Delhi in 11th position, according to a report by UK-based airline research company OAG.

Still, carriers across the world are in distress. Despite projections by International Air Transport Association that the global airlines' industry is projected to record a higher net profit of \$38.4 billion in 2018, it is important to remember that the net margin for the industry is below 5%.

Even the Gulf carriers, who have always had more than a passing interest in the Indian market, are haemorrhaging. Etihad Airways recorded a \$1.87 billion annual loss for 2016 while profits of its rival Emirates, the Middle East's largest airline, fell by more than 80% for the same period.

National airline carriers, with rare honourable exceptions like Singapore Airlines, have been like an albatross around most countries' necks. Keep them running, like India has done for long or like Malaysia, Poland and Italy did, and it becomes a case of pouring good money after bad.

Privatize them and the pain envelops the buyer as well. Check the red ink on the balance sheet of Etihad Airways after it bought into ailing Alitalia and Air Berlin.

The history of national carriers being privatized is chequered at best with few examples of successful transition from state to public ownership.

The best example in fact comes from Switzerland whose successful turnaround of its national carrier Swissair after it had piled up years of losses, is a lesson for the rest of the world. At some point, the Swiss government just decided to stop bailing out the airline and it was liquidated.

A new airline, Swiss International Air Lines was founded using the routes, planes and staff of the former Swissair and in 2005, it was sold off to the German airline Lufthansa.

It is an option that is no longer available to the Indian government. But the alternative, finding a viable buyer for the rickety old national airline, may prove equally challenging.

IndiGo's example shows that it is far cheaper to start a new airline and grow it successfully than to take on an ailing dinosaur like Air India and nurse it back to health.

Sundeep Khanna is a consulting editor at and oversees the newsroom's corporate coverage. The Corporate Outsider will look at current issues and trends in the corporate sector every week.