

A plan that is taking off now

The Centre has done as much as it could do to sweeten the AI deal

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When this government signalled its intent to sell a stake in Air India (AI), the cheers, even from free-market proponents who insist the State has no business running an airline, were muted. After all, intent isn't action. And deep down, no one believed the government would go ahead with its plan. By releasing an information memorandum on the proposed sale – with the divestment of 76% stake, it is a sale, nothing less – the government has surprised everyone. It takes courage to embark on a politically sensitive divestment a year before the general election. Given its track record in pushing through policies, both the good ones and the not-so-good ones, this government will, no doubt, push to close the deal.

The question is whether anyone will bite. They likely will, because AI is a good buy, and the deal isn't unattractive. One, 76% stake gives a buyer absolute control – a minimum of 26% is needed to block a special resolution and the government is retaining only 24%. The government says it is doing so to benefit from a potential (and possible) upside if the airline starts performing well, and to give shares to employees. That's a smart move. Two, not all of the debt on AI'S books are being passed on to the buyer; just around 65% of the airline's debt of around ₹51,000 crore is. The rest, along with most of the airline's real estate assets, will be part of a special purpose vehicle, the details of which haven't been provided yet. By keeping most of the real estate assets out of the deal, the government has insured against possible litigations against the deal at a future date (especially if there's a regime change). Three, there are no restrictions on rationalising the airline's bloated and unionised workforce. And four, there's the airline itself: 115 aircraft, connecting 54 domestic and 39 international destinations with 2,330 and 393 flights a week respectively; unused slots in international airports; and bilateral rights waiting to be tapped.

Sure, the government insists that the buyer retain the brand – most in their right mind would, even if that were not mandated – and that control of the airline remain with Indian entities. But these aren't significant enough dampeners. Nor is the provision exempting domestic airlines from some of the eligibility criteria laid out for bidders. Thus far, the only airline that has demonstrated serious intent about buying AI is Indigo. The government has not only acted on its intent but also done as much as it could do to sweeten the deal. The response from potential buyers will be keenly watched.