

Why AI failed to find buyers

The government should have considered an outright sale

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With one window for Air India's divestment closing – the deadline for interested buyers making a serious application to the government has passed, and there are no applicants – it is now becoming increasingly

clear that the State-owned airline will remain in government hands till at least early 2020. It is unlikely the government will worry too much about Air India in the remaining 11 months of its term; politics, not business, is likely to be foremost on its mind, and the sale of an airline with a highly unionised workforce is a politically sensitive affair that's best avoided around election time. The next government will have to pick up the reins, and even if there is continuity in regime, it is unlikely anything will happen before early 2020. The real measure of the magnitude of the opportunity lost by the government in not closing Air India's sale lies in the airline's performance over the next two years. Will Air India be better off, or worse off, when the process starts afresh? With fuel prices increasing, the economics of the aviation business are only going to turn adverse in the short-term – unless the government decides to move jet fuel under GST as airlines have been asking it to. That, and rising competition is unlikely to do Air India's numbers any good.

Indeed, the timing for Air India's divestment seemed about right. The Indian aviation sector, buoyed by benign fuel prices (right up to the beginning of 2018), had turned profitable. The number of passengers travelling by air had increased. Added to India's and Air India's obvious advantages – India is located well, with Mumbai and Delhi being just a few hours away from West Asia and seven to nine hours from most places in Europe; and Air India has slots and bilaterals that would be the envy of most airlines – this seemed to suggest that there would be appetite for Air India. As it turned out there wasn't.

In hindsight, the government could have done a few things differently to make the airline more attractive to buyers. For one, it could have dropped its insistence that it would sell all or nothing. For another, it could have been clearer about the airline's employees and unions. And finally, the government should have considered an outright sale, as opposed to wanting to keep a 24% stake in the airline. This wasn't a bad idea, actually, and only signalled the government's commitment to the airline and its belief that a divested Air India would do well, but clearly, many potential buyers viewed this stake as a possible beach head for possible government interference.