Why AI may look appealing to buyers

Collapse of Jet Airways and the government's decision to clear up some of Air India's debt could make privatisation more feasible now

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Air India is suddenly looking relatively attractive after last year's flop when the government failed to get strategic investors interested in the state-owned carrier. One reason is the vacuum left by Jet Airways' recent collapse.

Jet was one of Air India's key competitors among full service carriers both domestically and internationally. Now its operations are shut down. While it's true that lenders are making last ditch efforts to find a buyer (they are in talks with the Hindujas) before the airline's case is referred to the National Company Law Tribunal, even if Jet were to revive, it will be lengthy process. The airline will have to start from the bottom and building a fleet of the size it had when it was operating — 119 planes — could take two to three years.

Another reason working in Air India's favour now is that the government has decided to clean up part of the airline's burgeoning debt which was a key factor in keeping investors away from any privatization. ₹29,464 crore of the airline's working-capital debt which is not secured by an asset will be transferred to a new company, Air India Asset Holdings. As a result, Air India will now have a debt burden of only ₹25,000 crore, mostly long-term debt secured by aircraft purchases, to be taken up by a new investor. Also, its interest outgo will come down to just around ₹1,700 crore a year from ₹4,400 crore.

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While these two developments may have given Air India a new sheen, experts say they may not be enough. A source closely involved in the process with the government said: "The debt has to be brought down to a comfortable ₹10,000 crore to attract more bidders. The total debt should be lower than its enterprise value. The government can get ₹15,000 crore to ₹20,000 crore from the sale if it does so. It would attract more players and also a competition premium."

Since Air India owns 55 per cent of its 165 aircraft, the new investor could monetise these assets by selling the aircraft and leasing them back to generate upfront cash.

Yet another ray of sunshine is that Jet's demise has made Air India's international business look far more attractive. For instance, the 5-million-per-year passenger market in Europe, which Jet dominated earlier, is now wide open for Air India, with no competition from any other Indian player. IndiGo, for instance, has only just started a flight to Turkey.

A 12 per cent share of the international passenger market to and from India is up from grabs. Air India, with a 17 per cent share, has the wherewithal to grab a large chunk of this market. Most of the other Indian players are low-cost carriers and all of them except IndiGo have limited global operations. With Jet's collapse, the government is ready to give Air India slots previously used by Jet in markets like India-Dubai or India-Singapore on a preferential basis, albeit temporarily, and help expand its market share. The government is doing this because it is not opening up more seats through bilateral air agreements with other countries.

In the domestic market, too, Air India has gained. Its share of the domestic market rose from 12.2 per cent in January to 13.9 per cent in April. When the government's abortive disinvestment happened last year, many investors also shied away from bidding for the airline because they feared interference from the government which was going to keep a 24 per cent stake under the divestment offer.

But now, if sources are to be believed, the government might even sell 100 per cent in the airline. The size of the airline's staff, put at 26,000 employees, was another contentious issue at the time but in terms of employee cost to revenue, Air India's figure is in line with that of Jet. Experts say this issue too is not intractable; the government, with investors, could work on a staggered voluntary retirement scheme with a specific target for staff reduction every year.