

# Second time lucky?

100% stake sale and lower debt can make Air India a better buy

**T**he government has reportedly revived the plan to go in for a strategic sale of Air India and has asked the Air India management to finalise the financial accounts of the airline and its subsidiaries for 2018-19 by the end of June. A new expression of interest to invite bids is expected to be in the public domain within a month's time. This is encouraging news, because the sale of Air India has been hanging fire for a very long time and successive governments have failed to find a breakthrough. As a result, Air India has continued to be a drag on the taxpayers' account.

For instance, while its revenue went up from ₹20,526 crore to ₹22,146 crore between 2015-16 and 2017-18, net loss grew from ₹3,837 crore to ₹5,765 crore. The NDA government failed to clinch a deal for Air India in the last financial year as not a single entity showed any interest in picking up stake in the state carrier — perhaps with good reasons. The government, for example, offered just 74 per cent of its stake last year. This essentially scared prospective buyers who did not want to do business with the government as a partner. There were several other contentious provisions in the expression of interest that was released last financial year. For instance, the ₹5,000 crore net worth criterion for Indian carriers was simply a non-starter because only IndiGo met that condition. Carriers with zero or negative worth were allowed to participate provided they formed a consortium with other partners, together adding up to the stipulated threshold. But their stake was limited to 51 per cent of the combined 74 per cent shareholding in the airline, with the government holding the balance 26 per cent. This effectively meant that such Indian carriers could only hold 38 per cent in Air India. The terms also said the consortium shareholding pattern had to be frozen at the Expression of Interest stage and the winning bidder had to keep the Air India brand and operate it as a standalone airline on an arm's length basis.

Stung by the past experience, the government seems to be keen on ensuring that those mistakes are not repeated. For example, instead of 76 per cent stake sale, this time around the government wants to let go of 95 per cent stake, keeping aside just 5 per cent for the purpose of providing for employee stock options. Another big stumbling block last time was the level of debt on Air India's books. Here too, the government seems determined to make amends — it has already decided to transfer ₹29,464 crore of Air India's working-capital debt not secured by an asset to a new company, which the government hopes to pay back by monetising some of the airline's profitable subsidiaries. This leaves the airline with a debt of ₹25,000 crore, mostly long-term debt secured by aircraft purchases. This means the interest outgo will come down substantially to around ₹1,700 crore a year. This is within manageable limits for an airline which will reign supreme in the vast US and North American markets after the closure of Jet Airways. Since more than half the 163 aircraft are owned by Air India, the new owner can monetise them and lease them back. The resounding win at the Lok Sabha elections has presented an opportunity for the government to walk the talk.