Syllabus subtopic:

- Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Prelims and Mains focus: about the details of the deal and its significance; about types of disinvestment

News: The Union government invited bids for a 100% stake sale of Air India (AI) and transfer of management control along with its complete share in two subsidiaries — lowcost international carrier Air India Express and groundhandling arm AISATS.

Background

- This is the second attempt in two years by the Modi-led government at privatising the national carrier.

- On May 31, 2018, when the deadline for bids closed, not even a single private player had shown interest. On the table is a 100% stake in AI, 100% stake in Al Express Limited (AIXL) and all of the government’s 50% stake in AISATS, which is a joint venture with the Singaporebased ground handling company SATS Limited.

What’s new this time?

- The government has offered to hive off liabilities worth nearly Rs. 40,000 crore to sweeten the deal.

- The buyer will get a total of 146 aircraft, 56% of which are owned by the airline group, while the remaining are on lease. It will also benefit from as much as 50% of the international market share held by Indian airlines as well as the airline’s 4,400 slots at airports in the country and 3,300 slots in 42 countries, which will be available at least for six months after the sale is
complete.

- As many as 9,617 permanent employees, including pilots and cabin crew with deep technical and operational expertise, will be up for grabs along with the airline’s brand as well as the famous “Maharaja” and “Flying swan” logos.

- The bid document also states that the existing FDI policy, which allows a foreign airline to buy up to 49% in Air India, will continue to apply.

Who will be eligible to bid for the sale?

- Any private or public limited company, a corporate body and a fund with a net value of Rs. 3,500 crore will be eligible to bid.

- The last date for submitting interest to the transaction adviser is March 17 and the outcome of this round will be known by March 31, following which qualified bidders will be given two months to submit financial bids.

How will the deal go about?

- The private player keen to buy Air India will also have to take on liabilities of Rs. 32,474 crore, which includes the airline’s debt of Rs. 23,286 crore.

- The government will absorb Rs. 56,334 crore in liabilities, including Rs. 36,670 crore of debt. These have been transferred to a special vehicle known as Air India Assets Holding Limited (AIAHL), which will also comprise real estate and other assets worth Rs. 17,000 crore. Therefore, the net liability to be borne by the government will be Rs. 39,259 crore.

- All employees will go to the new buyer. There are no excess employees in Air India. The buyer should retain these employees for a certain lockin period, which would be divulged in the share purchasing agreement. The government was exploring different modalities to ensure that the retired staff have a medical cover.
Conclusion

A clean exit by the government and exclusion of the entire nonaircraft related debt signal a bold reform and a very determined effort to exit the airline to allow the taxpayers’ funds to be utilised for the government’s social agenda. This may be the single biggest writeoff by the government.