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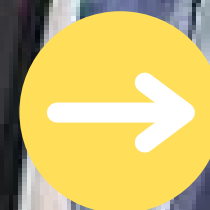
Financial Gazette



Inside this week's issue:

Tata Group Air India Takeover

Air India has returned to the Tata Group after 69 years as the central government handed over the airline to the Tatas on Thursday.



29th January 2022

A Much Awaited Reunion

Air India rejoined the Tata group after 69 years. The government inked a share purchase agreement with Tata Sons for the sale of national carrier Air India on October 25, with Tata Sons' subsidiary Talace Pvt Ltd emerging as the winning bidder after citing an enterprise value of Rs.18,000 crores. Of this, Rs.15,300 crores would be taken on by the winner as Air India debt, and the remaining Rs.2,700 crores will be paid to the government in cash.

In order to regain their control on the loss-making carrier, Tatas outbid a consortium led by SpiceJet promoter Ajay Singh for Rs. 15,100 crores. The transfer of shares was supposed to be completed by December 2021, but owing to delays in the completion of formalities and regulatory approvals, the transaction was finally completed on January 27, 2022.

Control And Debt Allocation

The Tatas now withhold 100% of Air India, as well as 100% of its overseas low-cost branch Air India Express and 50% of Air India SATS, a ground handling joint venture. They'll be in control of renowned brands like Air India, Indian Airlines, and the Maharaja in addition to 141 planes and access to a network of 173 destinations, including 55 foreign ones.

The government will absorb the remaining debt of Rs. 46,262 crores, which will be transferred to Air India Assets Holding Limited, a special purpose company (SPV) set up by it. When non-core assets such as land and buildings worth Rs. 14,718 crores, which will also be parked in the SPV, and the cash sum of Rs. 2,700 crores from Tatas are deducted, the government's net liability is Rs. 28,844 crores.

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What is an SPV?

A **special purpose vehicle**, also called a special purpose entity (SPE), is a subsidiary created by a parent company to isolate financial risk. Its legal status as a separate company makes its obligations secure even if the parent company goes bankrupt. For this reason, a special purpose vehicle is sometimes called a bankruptcy-remote entity.

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Sell-Off Reasons And Finances

Since its merger with Indian Airlines in 2007, the national carrier has been losing money. It was decided to privatize it not just because of its large debt, but also because of the government's changing policy stance and commitment to economic reforms. The current government believes it has no business being involved in non-strategic domains, and the airline industry is one such non-strategic domain.

Since 2009-2010, taxpayers have invested nearly Rs 1.1 lakh crores in Air India, including Rs. 54,584 crores in cash and Rs. 55,692 crores in loan guarantee support. These taxes may have been used to fund a variety of poor-targeted social programmes. All of this is being paid for by the government's debt guarantee.

The Airline was losing Rs. 20 crores every day, which also formed the base for the sale of Rs.18,000 crores.

The subsequent diminished burden on the exchequer and reduced borrowing pressure on the government will certainly influence foreign portfolio investors' outlook on India. What's interesting to note here is that Air India was listed for disinvestment over 20 years ago and since then the government has attempted to sell off Air India on three occasions all of which were unsuccessful. Reasons for the successful disinvestment were offering the 100% stake in the flagship carrier as well as reducing the amount of debt the buyer needed to take over this time around.



Post Acquisition Revival Plans

A **100-day plan** is being put into place for improving the operational and service standards of the existing airline. The Tata group is also looking to hire expat management officials to plan and implement this framework for the revival of the once high-flying airline. Post handover, the Tata group is planning to operate three airlines - Air India, Air India Express, and Vistara Airlines.

However, during the interim period, the Tatas will operate under the Aircraft Act and with the approval of the Directorate General of Civil Aviation, will decide what form their aviation venture will take on. The two options currently being evaluated are - either to have one mega airline or a merged AirAsia India-Air India Express Low-cost carrier and continuing Air India and Vistara as separate full-service carriers.

The group is also planning on introducing an “enhanced meal service” on four flights operating from Mumbai to Delhi, Abu Dhabi, and Bengaluru. As of now, Air India flights will not be flying under the Tata Group Banner, but an announcement is expected to follow soon.

Board Of Directors

The chairman of Tata Sons, N Chandrasekaran recently sent out an official email welcoming Air India employees into the Tata group following the acquisition. Additionally, he is poised to get on the board of directors alongside the chairman of Hindustan Unilever, Sanjiv Mehta, as one of the non-executive directors of Air India.

Having an existing board of seven members, the two government nominees and CMD of Air India will resign from the board immediately. The aircraft carrier is also set to be run by an interim management, having people from the Tata Group, Air Asia India, Tata Steel, and TCS.

Tata in the sky

| Tata Sons will be the new owner of debt-laden national carrier Air India. The sale marks the return of Air India to the Tata group, a pioneer in aviation

1932: JRD Tata pilots Tata Airlines' inaugural flight from Karachi to Bombay

1946: Tata Airlines becomes a public company; renamed Air India Limited

1948: Govt. of India acquires a 49% stake in the carrier

1953: Government nationalises Air India

2007: Air India merges with Indian Airlines, that operates only domestic routes

2012: Govt. approves ₹30,000 crore bailout for Air India, which has over ₹67,000 crore in debt

May, 2018: Govt. attempts to sell 76% stake in Air India; attracts no bidders

Jan, 2020: Govt. launches a second attempt, this time offers 100% stake in Air India

Oct, 2020: Govt. confirms Tata Sons' subsidiary Talace Pvt. Ltd. as the winning bidder



Analysing The Situation

The deal underlines the disinvestment policy that the government has been trying to follow, but still leaves it with a significant amount of debt. For the Tatas, it is more of an emotional reunion, as well as a long term project, a business bet of some sorts. A claim can be made by the Modi government, that this move saves taxpayers from paying the daily losses of the carrier and for the Tatas, reviving the airline will definitely require a lot of investment in order to tilt the scales in their favor.

However, there is a lot of positive feeling around the fact that with Tatas at the helm of Air India, the market is on a course for expansion and will gradually pressure other airlines. The competitors may need to carry out modifications in their existing products and services in order to provide a defined experience to the customers and not lose out on the market share.



Another interesting point is the existing synergies between Indian Hotels, TCS, and other Tata companies that will be able to provide Air India with a strategic advantage when it comes to combined deals and support, which other airlines may find hard to compete with. Additionally, Air India also owns billions of assets, such as prized slots at the London Heathrow airport, around 40,000 collectibles to name a few. The challenge however is for the new management to combat rising aviation fuel prices, competition from LCCs, a weakening rupee, and interest burden from previous poor performances.

All in all, the Air India brand definitely has one of the strongest recall values, owing to the fact that it is the national carrier, supported by a 20% rise in Indian passengers each year. But it all boils down to the Tatas to convert this recall into a commanding presence and ensure the Maharaja flies high once again.