

Air India returns to Tatas after group puts in winning bid of Rs 18,000 cr

Airline will return to Tatas after 68 years; first privatisation move in two decades

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More than three years after it failed to get even a single bid for Air India, the government on Friday announced the sale of the national carrier to the salt-to-software conglomerate Tata Group at an enterprise value of Rs 18,000 crore. This is the first major privatisation step in about two decades.

With this, Air India will return to the Tatas after 68 years. Along with the brand and the slots of the debt-ridden state-owned airline, the Tatas will get the low-cost subsidiary Air India Express and a 50 per cent stake in ground handling firm AISATS.

Of the bid amount of Rs 18,000 crore, the Tatas will pay Rs 2,700 crore in cash, while taking the remaining Rs 15,300 crore as debt.

The group will also have to pay around Rs 9,185 crore on account of capitalised lease obligations of 42 leased aircraft, primarily the Boeing 787 Dreamliner aircraft. Apart from Air India's 12,000-odd employees who have to be retained during the first year of operation, the Tatas will have to ensure business continuity.

The new owner can't transfer the Air India logos—there are eight—at least for five years. After that, these can be transferred only to an Indian entity.

The second contestant, the consortium led by SpiceJet Chairman Ajay Singh, placed a bid of Rs 15,100 crore, of which Rs 12,835 crore will be the debt to be retained, and Rs 2,265 crore would have been the payment in cash. The reserve price for the airline was set by the government at Rs 12,906 crore.

In what experts termed a win-win transaction, Tata Sons, which operates two airlines Vistara and AirAsia India, will become the second-largest airline in domestic market with around a 25 per cent market share while becoming the largest Indian airline on international routes.

Sources said the Tatas planned to integrate Air India's operations with Vistara to build an international premium airline while Air India Express would be merged with AirAsia India to straddle the low-cost space.

The airline has 4,486 domestic and 2,738 international slots across Indian and major international airports.

AI PRIVATISATION EXPLAINED

DEAL DYNAMICS

₹12,906 cr Reserve price set by govt for Air India	₹18,000 cr Bid put in by Tata group	₹2,700 cr Cash Tatas will pay for the acquisition	₹15,300 cr Debt that Tatas will take (be retained in Air India)
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Separately, Tatas will have to pay around ₹9,185 crore on account of capitalised lease obligation of 42 leased aircraft primarily the Boeing 787 Dreamliner aircraft.

WHAT DO TATAS GET?

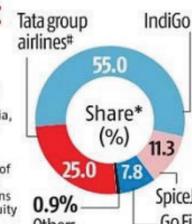
Full ownership of Air India and Air India Express, and 50% stake in ground handling arm Air India SATS. They will also get ownership of iconic brands like Air India, Indian Airlines, and the Maharajah, besides 141 aircraft and over 7,000 domestic and international airport slots

GOVT LIABILITIES

- (a) ₹46,262 cr debt
- (b) ₹15,834 cr current liabilities
- (c) ₹14,718 cr assets
- (d) ₹2,700 cr cash from Tatas
- (a+b) - (c+d) = **₹44,678 cr** impact on government finances

DOMESTIC MARKET SHARE

Note: *For Jan-Aug period; †Include Vistara, AirAsia India, and Air India; ‡Tata Sons holds 51% in Vistara and has equity investment of ₹3,904 cr, while in AirAsia India, it owns 83.6% and has equity investment of ₹1,255 cr



- The debt and assets will sit in the books of Air India Assets Holding Company
- Assets include its equity holding in various subsidiaries (ground handling, regional airline, MRO) and real estate
- Deadline for transaction conclusion: **December-end**

₹15,100 cr Offer made by Ajay Singh-led consortium	₹2,265 cr Cash component offered by the consortium	₹12,835 cr Debt it proposed to retain
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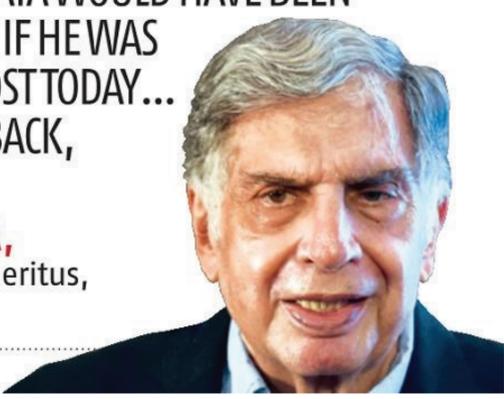
“The first initial step will be to do a significant restructuring of the network where Vistara, AirAsia India, Air India Express, and Air India don't cannibalise each other and cross-sell tickets on each other's platform and on the super app that the group is planning. We may see some changes in network optimisation from the winter schedule itself,” said a person in the know of things

The government, which has invested Rs 54,584 crore since 2009-10 as cash support and Rs 55,692 crore as guarantee support for Air India, has not succeeded in turning around the company. An estimate by the government said it would cost the government Rs 620 crore per month to operate the airline, which is losing Rs 20 crore daily, said Department of Investment and Public Asset Management Secretary Tuhin Kanta Pandey.

Ratan Tata, chairman emeritus of Tata Sons, said: “The Tata Group winning the bid for Air India is great news! While admittedly it will take considerable effort to rebuild Air India, it will hopefully provide a very strong market opportunity to the Tata Group's presence in the Aviation industry.”

“MR J R D TATA WOULD HAVE BEEN OVERJOYED IF HE WAS IN OUR MIDST TODAY... WELCOME BACK, AIR INDIA”

RATAN TATA, chairman emeritus, Tata Sons



Tata Sons Chairman N Chandrasekaran said: “This is a historic moment, and it will be a rare privilege for our Group to own and operate the country's flag bearer airline. It'll be our endeavour to build a world-class airline which makes every Indian proud.”

Ever since Air India's disinvestment process started in 2020, the pandemic ravaged the aviation business, ballooning Air India's debt to Rs 61,562 crore. Even after disinvestment, the government will have to service Rs 46,262 crore of debt and Rs 15,834 crore of current liabilities like accumulated airport charges and vendor payments which would be transferred to Air India Assets Holding Ltd (AIAHL), a special purpose vehicle set up to transfer Air India's debt.

After netting the value of non-core assets worth around Rs 14,718 crore and Rs 2,700 crore of cash from Tatas which will be transferred to AIAHL, the impact on government finances after transferring excess liabilities would be around Rs 44,679 crore, said Pandey.

“AIAHL will raise money through government guaranteed bonds and pay off lenders, or the government will ask the lenders to novate the guarantee to AIAHL as most of these loans are not backed by assets, especially aircraft,” he said.

In 2019, AIAHL mopped up Rs 21,985 crore by way of bond issues to repay debt that was transferred.

For the Tatas, it will be a formidable challenge to turn around the airline.

“Air India, despite having an enviable fleet, has been reporting losses primarily due to operational inefficiencies and huge debt. India is the fastest-growing aviation market poised for a strong recovery in the post-Covid times. Tata Group, with its experience in Vistara and AirAsia, is expected to bring in efficiency and cost optimisation, which will help in cutting down the losses,” said Vipula Sharma, director (ratings) and head (infrastructure rating), Brickwork Ratings.

THE VOICES



“Air India's return to the Tata group marks a new dawn for the airline! My best wishes to the new management, and congratulations to DIPAM secretary and the civil aviation ministry. I hope the airline will continue to deliver on its mission of bringing people closer through its successful ops”

JYOTIRADITYA SCINDIA
Civil Aviation Minister



“This is a historic moment, and it will be a rare privilege for our Group to own and operate the country's flag bearer airline. It will be our endeavour to build a world-class airline which makes every Indian proud... I would like to pay tribute to JRD Tata, whose memory we cherish”

N. CHANDRASEKARAN, Chairman of Tata Sons