

AIR Spotlight - Air India Disinvestment and The Gains

AIR Spotlight is an insightful program featured daily on the All India Radio Newsonair. In this program, many eminent panellists discuss issues of importance which can be quite helpful in the [IAS exam](#) preparation. In this article, the discussion is on AIR INDIA DISINVESTMENT AND THE GAINS.

Context:

Air transport is the most modern means of transport, incomparable in terms of speed, time savings and long-haul operations. It is very important for a huge country like India. This facilitates access to remote and inaccessible areas such as mountains, forests, deserts, etc. It is very useful in times of war and natural disasters such as floods, earthquakes, famines, epidemics, hostilities and breaches of public order.

Tatas win back Air India with ₹18,000 cr. bid

- More than half a century after handing over control to the centre, the salt-to-software conglomerate made an offer for **Rs18,000 crore** to take back the airline.
- The first attempt to reduce state participation through divestment was made in 2001 under the then NDA government. But this attempt to sell a 40% stake failed.
- As the profitability of AI operations deteriorated year after year, it was clear that sooner or later the government would have to privatize the airline.

Details

- Tatas will own 100% of Air India, 100% of its international low-cost division Air India Express and 50% of joint ground handling company Air India SATS Airport Services Private Limited (AISATS).
- Tata Sons beat SpiceJet promoter to bag Air India.
- Tatas' bid of ₹18,000 crore comprises taking over Rs 15,300 crore of debt and paying the rest in cash.
- In addition to 141 aircraft and access to a network of 173 destinations, including 55 international, Indian Airlines, and Maharajah.
- The government will absorb the balance debt of ₹46,262 crore, which will be transferred to a special purpose vehicle (SPV) set up by Air India Assets Holding Limited. When adjusted against non-core assets such as land and buildings worth ₹14,718 crore that will also be parked in the SPV and the cash amount of ₹2,700 crore from Tatas, the net liability on the government comes to ₹28,844 crore.

Significance of this sale

- It underscores the current government's commitment to reducing the role of government in the economy.
- This is a significant achievement given the historical difficulty in divesting from this airline.
- In purely monetary terms, however, the agreement is not a major step toward the government's divestment target for the current year.

- It can be argued that if the government had managed the AI well, it could have made a profit and paid off the debt instead of selling the airline (which could make a profit) and still be left with a large amount of debt.

Employees' Concern

- As per the agreement, Tata would retain all employees for a period of one year.
- If someone needs to be removed in the second year, the Voluntary Retirement Scheme is offered. He/she will receive a tip and a retirement fund in accordance with the applicable law of the country.
- The government also covers post-retirement medical services for retirees.

Conclusion

The sale of Air India can be seen as one of the biggest reforms in the aviation sector. However, there is a long way to go in rebuilding Air India that will require patient and very long-term capital. For Tatas, adopting AI is a long-term bet. Tatas are expected to invest much more than they paid the government if this bet works for them