

A welcome sale

The Centre should sell its entire stake in
Air India, even if in stages

With the Union Cabinet's 'in-principle' approval for the sale of Air India and five of its subsidiaries, a long-standing demand on the reform checklist has been ticked. The rationale for the government to shovel in huge sums of money to keep the loss-making airline afloat was weakening by the year. Today, such life support, as Finance Minister Arun Jaitley recently noted, was being given when competing private airlines already cater to well over 85% of the air travel demand in the country. Government money that keeps Air India from going bankrupt would be much better used to fund important social and infrastructure programmes that are starved of precious capital each year. Air India has been surviving on a ₹30,000-crore bailout package put together by the United Progressive Alliance government in 2012 to help its turnaround, and the debt relief provided by public sector banks. The airline has a debt load of over ₹50,000 crore on its books, and it is estimated that even a well-executed asset sale may not fully cover its present liabilities. So in the event of a sale, taxpayers may have to foot at least some part of the loss – either directly in case the government pays off the airline's creditors, or indirectly if the public sector banks write off their loans to the airline. However, it is more likely that the government may divest its three profit-making subsidiaries separately, with the proceeds going to Air India to help deal with its liabilities.

It is not yet clear whether the airline will be fully privatised or how its eventual sale will be executed. A ministerial panel under Mr. Jaitley is expected to begin working on the details soon. But having taken the politically courageous decision to privatise Air India, the government would do well to go for the sale of its entire stake, even if it is done in a gradual manner. Eventually, the aim of the sale should be to get the best price for the airline. One good way to achieve this would be to allow both domestic and foreign buyers to bid freely for stakes. For this, the government will have to re-tune its FDI policy to allow foreign investors to buy a stake in Air India. The Civil Aviation Ministry has made a case for the sale of non-core assets first to pay off existing creditors, so that the airline becomes more attractive to private buyers. But this assumes that private buyers would not otherwise see the value in Air India's assets. IndiGo has already expressed interest in buying a stake in Air India, with other domestic airlines reported to be serious about making a bid too. Finding a way to deal with Air India's debt load will be the main challenge for Mr. Jaitley's panel. How this process goes will be vital not just for Air India. If it goes relatively smoothly, that would make the task of moving forward on the disinvestment of other public sector units that much easier.