

# Govt working on new turnaround plan for Air India

Aim is to make airline saleable when macro conditions improve

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THE GOVERNMENT may have failed at finding any buyer for its stake in flag-carrier Air India, which is under a debt of nearly Rs 55,000 crore, but plans are still being chalked out to make the airline saleable when macro conditions improve. A new turnaround plan is being worked out by the Ministry of Civil Aviation, along with the airline, and is expected to be announced later this month. According to official sources, the new turnaround plan will be different from the old one given that the 2012 plan focused on financial restructuring of the airline, while the proposed one will focus on organisational reform of Air India.

Late last month, the Ministry of Civil Aviation, in its representation to the Parliamentary Standing Committee for transport, tourism and culture, said that disinvestment of Air India is not going to be happening any time soon. The first attempt by the government to sell its stake in the airline – codenamed Project Royal – failed mainly due to the government not parting with the entire stake, the high debt-levels and a high employee-to-aircraft ratio. To help the airline survive, the government had announced a financial restructuring plan (FRP) in 2012 as part of the original turnaround plan, as per which the airline's working capital loans were restructured to long-term debt.

"If FRP was working, Air India wouldn't have been in a dire straits. FRP didn't go wrong. The FRP earmarked crude at \$45 a barrel and today the crude is at \$75 a barrel. Dollar was still high. The plan, now, is to make Air India stand on its own feet so that it can be sold in future when its conducive to sell the airline. Unlike the FRP, where the government did financial restructuring, the new plan will focus more on organisational reform. Will make it a board managed company. One more outsider may join the board," a senior Air India official said, on condition of anonymity. Last month, the government appointed ITC Chairman YC Deveshwar and Aditya Birla Group Chairman Kumar Mangalam Birla as independent directors on the board of Air India.

Speaking to reporters on the sidelines of the

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International Aviation Summit on Tuesday, civil aviation secretary RN Choubey said that the government was continuing to fund Air India despite a decision being taken to sell it so that the company's value doesn't erode till the time it is disinvested in. "Our first aim is to work out the necessary support for Air India's healthy functioning. We will not like value destruction to happen. If we do not support, there may be value erosion. Otherwise, when we actually find that environment has improved, oil prices have come down and we actually want to sell, we may find that value has eroded," Choubey said.

As per estimates by aviation consultancy CAPA India, the national carrier is expected to lose more than \$2 billion in value during 2018-19 and 2019-20. "Air India's value will continue to erode, making future privatisation unlikely. In the absence of full recapitalisation and a clear direction, Air India is likely to see a continued decline in its domestic and international market share, and head towards strategic irrelevance. This will diminish its potential to be revived and to secure a strategic investor. In the meantime, it will remain a structural distortion for the industry and a burden on the tax payer. The quantum of losses will become increasingly unacceptable," CAPA India said in its mid-year aviation outlook for 2018-19.

The aforementioned Air India official pointed out that the carrier's financials for the 2017-18 did not show any signs of improvement, primarily due to the soaring fuel costs. "I can't reveal more on this as the results are being audited," he said. For the year 2016-17, Air India reported a net loss of Rs 6,288 crore. Choubey said the ministry was yet to take a call whether the new turnaround plan for Air India will require a Cabinet approval or can be done bilaterally between the ministries of civil aviation and finance.