

## TAKING WING

# AI operating profit set to rise ahead of likely sale

Expected to come in at ₹300 crore in FY17 from ₹105 crore in the previous financial year

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**EVEN AS REPORTS** of the government looking to sell Air India gain ground, the national carrier is expected to report an operating profit of close to ₹300 crore for FY17, up from ₹105 crore in 2015-16. Senior executives told *FE* passenger revenues grew to ₹16,200 crore last year.

This will be only the second year since the merger with Indian Airlines in 2007 that the airline will report an operating profit. It has not posted a net profit in a decade.

Finance minister Arun Jaitley had observed last Saturday that it made little sense to continue investing in an airline that commands a market share of just 14%.

A sale could mean a big haircut for banks that had refused the restructure ₹8,000 crore of loans under the S4A or scheme



### FLIGHT PLAN

- Centre won't have to infuse the remaining ₹22,000 crore of the revival package
- AI makes cash loss worth ₹200 per month
- Land and buildings will be transferred to a separate SPV before privatisation
- Reduced aircraft-related debt in FY17 after sale and lease-back of 9 Dreamliner aircraft
- Ebitdar for April to December period in FY 17 increased by 60% year-on-year

for sustainable structuring of stressed assets, which involves conversion of debt into equity.

The airline's financial condition continues to be fragile; it owes lenders some ₹46,600 crore and if it doesn't sell the business, the government will

need to infuse around ₹4,000-4,500 crore of capital annually. Since FY12, the government has invested close to ₹28,000 crore. The carrier incurs a cash loss of ₹200 crore a month.

While the government might persuade lenders to take a hit, it might be difficult to persuade the new owners to retain the 18,000-strong workforce, much of which is unionised; Air India's total wage bill in 2014-15 was ₹2,466.6 crore. Potential buyers might see value in the carrier's bilateral rights and prime slots across airports around the world and in India, an official said. India is among the fastest growing aviation markets globally. The government is expected to move most of the airline's land and property, including the iconic Air India building in Mumbai's Nariman Point, into an asset-holding company before the sale, sources said.

A core group of secretaries, headed by the Cabinet secretary, is currently examining the sale of AI and should opine on the matter in a couple of weeks. Thereafter, the department of investment and public asset management (DIPAM) could seek an in-principle approval from Cabinet Committee on Economic Affairs by end-June.

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Subsequently, DIPAM would appoint transaction advisers and asset valuers. "The transaction is likely to be over in 10 months," another official said.

Last fiscal, Air India reduced its aircraft-related loans by Rs 6,000 crore, to around Rs 14,000 crore from Rs 20,000 crore at the end of FY16. Officials told FE the airline had repaid Rs 6,000 crore of bridge loans from the proceeds of sale and lease-back of its nine Dreamliner aircraft, done in August 2016.

With yields in the domestic market under pressure, the full-service carrier grew passenger revenues by just 2.85% year-on-year to Rs 11,795 crore in the nine months to December 2016. However, Ebitdar (earnings before interest, tax, depreciation, amortisation and rentals) jumped 60% year-on-year to Rs 3,412 crore.

In 2015-16, AI reduced its net loss to Rs 3,837 crore from Rs 5,859 crore in FY15.