

Should the Maharajah be Dethroned ? A Case Study of Air India

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Abstract

Air India, like any other public sector undertaking/government company, is incurring losses and trapped under the heavy burden of debt. The taxpayers' money is being utilized to keep the sinking Maharajah on a ventilator. The first attempt to sell 76% stake in Air India failed miserably due to several reasons as identified by the transaction advisor of the Government of India. The reasons are Government of India's 24% ownership and equivalent rights, heavy debt around INR 38,000 crores, fluctuations in macro environment, no individual bidding, consistent losses, and buyers not being able to form a cartel within the given time period. Why is that such a big ship is drowning today ? Is it overburdened with the losses and loans? Why is it unable to introduce some revival strategy ? What are the reasons responsible for its failure? Disinvestment should be the last option, especially for a rich entity and a national carrier like Air India. However, the government is in a hurry to exercise its last option, which is to sell it. The government has now made a second attempt to modify and sell it under promising conditions. The main objective of this case study was to discuss the current situation of Air India and examine the best option available for it, including reverting the decision to sell. The case provided pointers concerning all the options available for the airline.

Keywords : Airlines, sell, stake, debt, disinvestment, Maharajah

JEL Classification Codes : A23, D02, G01, G33, R40

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Mr. Ashwani Lohani seems to be a worried man as he begins his second innings at the Airlines House at Parliament Street, New Delhi, India as the Chairman and Managing Director of India's prestigious and only national carrier, Air India as he has to oversee the government's second attempt to sell 100% stake of the national carrier to the interested parties. The first attempt to sell 76% stake in the airline failed miserably due to several reasons as analyzed by the transaction advisor of the Government of India. The reason being Government of India's 24% ownership and equivalent rights, heavy debt of around INR 38,000 crores, fluctuations in macro environment, no individual bidding, consistent losses, and buyers not being able to form a cartel within the given time period. However, he is of the opinion that a potential buyer has to see Air India beyond its balance sheet to understand the real strength of the airlines. This clearly indicates that one should not be led by the figures. Analyze the numbers, identify the real cause, and look at it professionally to restructure the airline to maneuver it safely back on the runway.

Aviation Industry in India : Review of Literature

Air travel has become the most considered mode of transportation being preferred by people today owing to the

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convenience, comfort, reduced time of travel, and cheaper air fares (Kumar et al., 2019). The aviation sector in India has developed as one of the fastest growing transport sectors in the country during the preceding 3 years. India has become one of the major national markets for air transport in the world and is expected to outdo United Kingdom to become the third largest air passenger market by 2024 (India Brand Equity Foundation, 2021). Currently, AI connects 103 airports in the United States and an equivalent number throughout the world. Despite the Regional Connectivity Scheme - Udan (RCS - Udan), India's aviation sector is mostly untapped, with enormous growth potential. By 2026, the Indian government intends to spend \$1.83 billion on infrastructure construction and upgrades as well as aviation navigation services. In the months of April through October 2019, India's total passenger traffic was 199.60 million, with 1.5 million aircraft movements (Chopra, 2020). On January 15, 2019, the Ministry of Civil Aviation (MOCA) released "Vision 2040," a document outlining the future evolution of the civil aviation sector.

With a forecast of six-fold growth in air passenger traffic to 1.1 billion passengers by 2040, 2,359 passenger aircrafts will be required to service the increased demand. By 2040, air cargo handlings will have increased to 17 million tonnes. In India, the required number of airports would be around 200. The government intended to establish a \$2 billion fund to assist low-traffic airports. By 2040, India hopes to have an aircraft manufacturing factory up and running (MoCA Vision Document 2040). FDI in India's air transport sector, including air freight, reached \$1,904.37 million between April 2000 and July 2010, according to the Department of Industrial Policy and Promotion (DIPP).

The government recently announced 100% FDI in the air transport sector, with the caveat that FDI beyond 49% would require government approval. Under the automatic route method, 100% FDI will continue to be available for non-resident Indians (NRIs) (Chopra, 2020).

Three decades after India nationalized its airline industry, India began to ease restrictions in 1986. The factors that inspired the government to liberalize the airline sector included – the desire to endorse economic growth, the desire to recover air services, and the worldwide trend towards liberalized airline competition (Mazumdar, 2009). Opening of the economy in 1990's changed the face of the airline business in India. Several private players have come in the primarily government-centric industry. Many low-cost carriers are in operation as well. The public sector airline business has been taken over by the private players presently holding almost 75% of the market. By 1995, private airlines had captured nearly 10% share of the domestic traffic in the aviation business (Banerjee & Gupta, 2011). Consistent economic growth, as well as other characteristics such as increased liberalization, fast urbanization, rising purchasing power, and growing interest in tourism, have all opened up options for India's corporate and leisure travel markets. This resulted in a growth of the Indian aviation sector, which is expected to increase at a rate of 20% per year over the next 5 years (Rao, 2008).

A Modest Beginning to A Gigantic Public Sector Undertaking

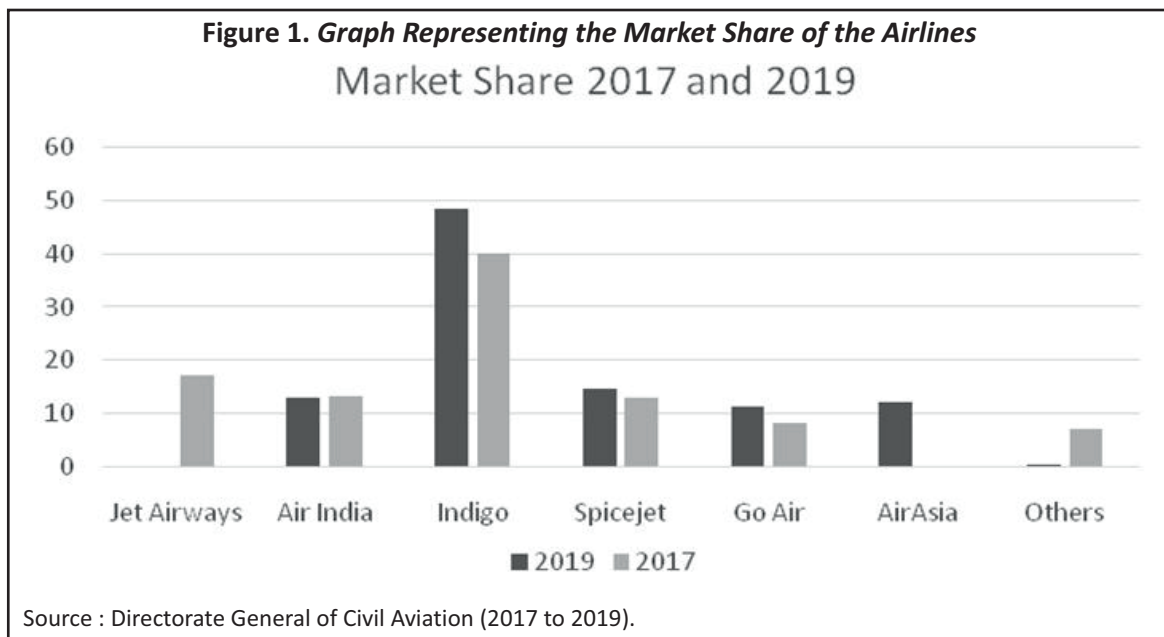
JRD Tata, known as the 'Father of Indian Aviation,' founded Tata Airlines in 1932. The Government of India purchased Tata Airlines and renamed it Air India Limited in July 1946. Indian Airlines (IAL) was founded in 1953, when seven domestic airlines merged to form the Indian Airlines Corporation (IAC). Until 1991, when India's economy was opened up, Indian Airlines controlled the domestic market. The Indian Airlines's monopoly (Table 1 and Figure 1) began to diminish with the introduction of private players (Appendix A). The airline, which has a lot of assets and provides a lot of services, discovered that it was difficult to stay afloat in the competitive corporate environment.

Air India, the winner of Corporate Excellence Award, Trusted Brand Award, and Best Airline Award, is facing a huge financial crisis (Gupta, 2015). During the course of its wonderful years and amidst ups and down, the Maharajah met its obligations – commercial as well as non-commercial conscientiously like a true king. It

Table 1. Market Share of Airlines as in September 2019 and 2017

| Airlines | 2019 | 2017 | % of INC/DEC |
|-------------|------|-------|--------------|
| Jet Airways | 0 | 17.19 | (100) |
| Air India | 13 | 13.3 | (2.25) |
| Indigo | 48.2 | 40.1 | 20.19 |
| Spicejet | 14.7 | 13.1 | 12.21 |
| Go Air | 11.5 | 8.4 | 36.90 |
| AirAsia | 12.1 | 0 | 100 |
| Others | 0.5 | 7.2 | (93.05) |

Source : Directorate General of Civil Aviation (2017 to 2019).



deported citizens as well as non-citizens in distress stranded in other countries due to wars such as Iraq-Kuwait war in 1991, or medical emergencies such as the prevailing Coronavirus pandemic, performed the role of a national carrier to various dignitaries including the Prime Ministers, the Presidents, etc. Its corporate social responsibilities (CSR) activities are well acclaimed by the world, so much so that they are recorded in the Guinness Book of World Record. The work done by its pilots and other staff against all odds is commendable. Is it then not necessary that the country must have its own national carrier to face the situations like natural disasters, evacuations of its citizens from other countries stranded due to various reasons ? Is it advisable and feasible to rely upon the private airlines in such situations ? This is a billion-dollar question. One needs to think why the Government of India is hell bent to sell Air India ? Why cannot the government pump in additional capital to bring the airline on runway once again ? Why not give the Maharajah another chance to serve the nation ? It is difficult but not impossible and to sell it is not a last resort to bring it back to its lost glory.

What Went Wrong ? ... A Big Mystery

This is a delicate, complex, and million-dollar question (Appendix A). In the post liberalization era, both

airlines – Air India and Indian Airlines faced stiff competition from private airlines. The airlines which enjoyed a monopoly but were managed unprofessionally under the supervision of their politically inclined bosses post liberalization could not resist the competition from the other private airlines, which is obvious from their falling market share and dwindling profits (Table 1 and Figure 1). The proposal of amalgamation of Air India and Indian Airlines to minimize the problems was coined by the government to improve the revenues of both the public sector airlines. Financial advisors were roped in to advise the government and to prepare a blue print for their merger. Air India was formed in April 2007 by the merger of Air India Limited and Indian Airlines. With over 140 aircrafts and 33,000 employees, Air India was one of the world's top airlines. However, the merger of the two airlines resulted in an unrecoverable financial crisis (Shukla, 2012). From 2007, Air India's revenues started to dwindle (Table 5 and Figure 4), and it was confronted with severe difficulties in managing its human resources. Experienced employees left the airline to join the private sector for greener pastures. Employees went on strike several times, disrupting the airline's operations. The strikes resulted in numerous aircraft cancellations, which had a negative impact on productivity and public perception. The researchers, who analyzed the uncertainty and conflicts prevailing in AI, expressed doubt over AI's existence in the future. The Comptroller and Auditor General of India Committee commented that the decision of merger was taken in haste, without due diligence and proper planning, resulting into undue delays, if not derailment.

The Parliamentary Standing Committee on Transport, Tourism, and Culture (2010) commented that the cause for the decrease in the confidence of the employees was altering the name of IA (Indian Airlines) which had goodwill in the aviation sector (ICMR, IBS Center for Management Research, 2013). The reason of amalgamation was not opened up either to clients or to the staff by the administration. For an amalgamation to be result orientated and to keep up the confidence of the workforce, its execution should be piecemeal, cordial, and scientific, which should have been a perpetual process for few years in the future. This did not happen.

In a 2017 audit, the Comptroller and Auditor General of India (CAG) pointed out various flaws in the government's claim that the Maharajah is on the mend. The auditor stated in its report that the airline failed to meet several of the targets in several practical areas of the financial reorganization proposal, which included equity infusion of ₹ 30,231 crores until FY21. This incident resulted in the airline generating less income, resulting in the infusion of additional taxpayer funds. The benefits of the financial reorganization strategy were reduced as a result of this.

Increasing fuel prices did, in fact, contribute to the decline of the airline. With the shift in government standards, Air India had to contend with stiff competition from international airlines such as Kingfisher Airlines and Jet Airways, which offered superior facilities at lower pricing. Second, the consolidated balance sheet of the amalgamation showed a large loss of ₹ 7,200 crores. To cover its losses, Air India received \$ 534 million credit from the Indian government (Gupta, 2015). With the support of Accenture and SBI Capital, Arvind Jadhav, the then Chairman-cum-Managing Director (CMD), did try to revive the organization but without much efforts. The organization's structure grew enormous and confusing as a result of the unreasonable merger. There were two sets of managers for each post, with no cooperation between them. It had more than three times the number of staff that an airline of its size should have. The union was extremely powerful, fighting anything and everything that had an impact on them. It had a bad reputation for service and a poor track record in terms of on-time arrivals and departures. As the company was government-owned, political intervention in the strategic decision-making process was common.

The government's claim that state-owned Air India is on the mend was beset by flaws, according to the Comptroller and Auditor General of India (Comptroller and Auditor General of India, 2017). Some of the flaws are listed below (Shukla, 2017) :

(1) Low Revenue in Passenger Segment : Air India earned a revenue of ₹ 15,773 crore, contrary to projected

revenue of ₹ 21,297 crore in FY16, which was attributed to various reasons such as non-availability of aircrafts, faulty positioning, thoughtless use of human capital, and low revenue from its other services.

(2) Monetization of Assets : Faulty and unscientific monetization plan of its assets failed to realize the projected revenue of ₹ 500 crores in the year 2016. The audit report identified that the terms and conditions of five out of 12 assets made it impossible to monetize (Table 5 and Figure 4).

(3) Non - Availability of Appropriate Aircraft : The auditors noted a mismatch between demand and supply for aircraft. Wide-body aircraft were over-provisioned, but narrow-body aircraft were under-provisioned while being needed in greater numbers. This increased the airline's operating costs.

(4) Negligence in Granting Bilateral Agreements with Other Countries : The audit pointed out that granting of more than essential mutual seats to carriers of foreign countries affected Air India's prospects. The bilateral seats increased from 13,330 seats to 50,000 seats in the India - Abu Dhabi benefited Etihad Airways at a cost of Indian carriers.

(5) Loss - Making International Operations : Air India may be expanding to new countries, but according to the audit, the majority of these locations burn a hole in the airline's wallet since it fails to recoup the costs.

(6) Mismanagement of Human Resources : The company had a massive number of 11,433 employees as against the predicted requirement of 7,245. There were underutilized pilots and cabin crews which led to a huge loss for the airline.

Privatization.... Is That the Only Option ?

It is apparent that numbers from the financial statements led to a conclusion that the sale of Air India is the best option. It would put a full stop on transfer of tax payers' money to meet the financial needs of the airline. However, one has to look beyond the balance sheet and must try to understand that the pasture on the other side is greener. The lost glory of a once glorious airline can be restored through scientific and professional reorganization of its financial and non-financial structures.

One needs to understand if privatization is the only option, then why not adopt those principles, procedures, and methodologies which will be adopted by the private entities and revive the airline ? Is privatization the only option left ? The government has to come out of the stereotype that privatization is the only option to revive the loss-making public-sector undertakings. It needs strong political will as well as professional, ethical, and apolitical outlook of the bureaucrats together with flexibility and freedom to strategize, plan, and execute the policies fearlessly.

The merger combined two companies, resulting in a behemoth with 30,517 personnel (Table 4 and Figure 3) – 214 per plane. Singapore Airlines employs 161 people, while British Airways employs 178 ("Anatomy of a failed AI, 2012"). Personnel can be divided into three groups: airlines ; ground handling ; maintenance, repair, and overhauling, resulting in the reallocation of approximately 19,000 people into two newly created units and a reduction in the number of workers per aircraft ("Anatomy of a failed AI, 2012"). If the large size of the workforce wasn't enough of a hassle, the management's approach to integrating the labour force was a perfect storm. There were no attempts to regulate recruitment policies for different positions. Air India operated on a five-day schedule ; whereas, Indian Airlines operated on a six-day schedule. Indian Airlines pilots were elevated to a higher position once every 6 years ; whereas, Air India pilots grumbled that they got their chance of promotion only after 10 years, and that too if a vacancy existed. A single airline cannot have two HR policies and processes. The two airlines's

ground handling teams continued to work separately, which was not satisfactorily handled following the merger of the two airlines. Prior to the merger, there was a lack of proper HR research. While some of the problems are being rectified, the process has been slow and inefficient. Staffers below the level of Deputy General Manager are yet to be combined, 5 years after the two airlines merged. The airline guidelines must be in place and well-understood by the general public.

The airline is managed by bureaucrats under the supervision of their political bosses, which resulted into irrational decisions. All these stakeholders are taking undue advantage of the poor Maharajah.

The restructuring of the routes was also responsible for the failure of the merger. Industry officials said that since 2007, about 40 routes had been restructured. Revenue generating lucrative routes on which Air India flights operated were cancelled to the extent of 30 – 40%. In 2011, the Committee on Public Undertakings (CoPU) examined all airline slot allocations, including Air India's. Its members believed that private and foreign airlines had received the lion's share of commercial routes. These issues can be addressed once again.

The airline is rich in assets – human and non-human (Appendix B). It is the only airline in India which does critical aircraft maintenance including for competitors like the beleaguered Jet Airways Ltd. and has 33 hangars as compared to Jet Airways (now closed), who had two hangars. Besides, AI has its own training centre and a simulator for Boeing 777 and 787 Dreamliner. The unutilized infrastructure and facilities can be rented to other airlines to reduce the operational cost and to boost the revenue or else can be outsourced to earn additional revenue (Shukla, 2017).

AI's non-aviation assets can be found all over the world. In addition to its head office on Marine Drive, which is valued at ₹ 1,600 crores, it has 32 acres of land in central Mumbai. It owns a housing estate in New Delhi's capital city, Vasant Vihar, which is flanked by embassies and wealthy villas. It also has properties in London, Hong Kong, Nairobi, Japan, and Mauritius on a global scale. Centaur Hotels in Delhi and Srinagar are also owned by the company. This is only the tip of the iceberg (Shukla, 2017).

According to Air India's 2014 – 15 annual report, the airline owned 8% of Air Mauritius ; Orange SA's stock ; SITA, an IT company ; Cochin International Airport Ltd. ; and Aeronautical Radio of Thailand Ltd., which provides air traffic control. The airline flies to 72 domestic and 41 international places with major slots. The Heathrow Airport alone has four slots which allow landing and take-off at a particular time, which was a prized possession of AI. However, in 2016, a London Heathrow slot was sold for about \$75 million (Shukla, 2017). If not used optimally, such type of arrangements must be done away or rented to other airlines.

It is affiliated with Star Alliance, the world's largest airline alliance, which includes Singapore Airlines, Lufthansa, United Airlines, and Thai Airways among its members, allowing passengers to travel on a single Air India ticket. The process of joining Star Alliance was lengthy, costing €10 million in entry fees and \$100 million in IT and other infrastructure improvements (Shukla, 2017). The corporation should reconsider such alliances that merely increase costs.

Air India also owns one of the most valuable collections of contemporary Indian art in the world. After princely kingdoms amalgamated with the Republic of India after independence, Air India became the custodian of notable artists' work, including Anjolie Ela Menon, M.F. Husain, and V.S. Gaitonde, among others. It also features opulent antique furniture, some of which is made of ivory. It will take years to amass such a rare collection. AI, on the other hand, did so with considerable patience and zeal. The Air India brand is still more well-known outside than any other Indian brand. Is this in any way beneficial to AI's business ? Look at any modern airline operation and you'll see that cost-cutting is a top priority.

Following the merger, Air India continues to operate planes produced by both Boeing and Airbus: international flights are primarily served by wide-body Boeing 777 aeroplanes, while domestic routes are primarily served by A320S planes. As a result, the cost of operations, maintenance, and staffing are expensive. The airline has a top line income of roughly ₹ 25,000 crores, which can be increased quickly with improved management methods,

given occupancies, revenue per seat, and aircraft utilization are all low when compared to well-run profitable airlines. There's also a never-ending customer base (Gopinath, 2018).

The time it took to merge the two airline reservation systems had an impact on the company's overall performance, which ended in February 2011. It can sell tickets under a single airline code, form joint alliances, and sign code-share agreements thanks to a single system. Can the Maharajah's turban, the airline's mascot, and the face of AI be reinstated if the difficulties plaguing it are addressed appropriately, quickly, and scientifically without political intervention and red tape?

If Selling is the Only Option.....Then

The government has finally decided to bite the bullet on Air India. The government is harboring the delusion that the airline will get good money forgetting that Air India is now a doddering Maharajah. The government must do more to attract the bidders (Appendix C), increase competition, and realize the optimum value. One must remember that though Air India has lost its glow, it is a much respected and sought-after brand, reminding one of fond reminiscences that have a huge likely value, which can be unlocked by the right strategic investors. It has a huge domestic market and international space of key destinations, protected time slot, and slots in important airports with air side access ; hangars, engineering facilities, and infrastructure ; proficient engineers and aircraft crew, and benefits of bilateral rights and guarantee of continued protection (Gopinath, 2018).

For value creation and expansion, the government must sell Air India and its engineering and ground handling, which are critical to its operations, in an open e-auction to the highest bidder while keeping no stake. It must sell it as a debt-free company with the buyer having complete control over the number of staff it wants to keep. This is critical to the deal's success. If the sale of Air India requires the buyer to engage the entire staff, no one in their right mind will even look at the offer documents. The government must commit to dealing directly with employees by offering a Voluntary Retirement Scheme (VRS), a golden handshake, or by absorbing them into other government departments. The government has made a social contract, and it is a commendable effort because sticking with Air India will cost the country more money. There are enough non-aviation assets, like real estate, to support the state's coffers and recompense the employees who are not absorbed by the buyer.

The bidding process must be open, transparent, and digital. It must not be a closed “sealed envelope” to make it more transparent and get the competitive sale price where each bidder can bid the price after viewing the quotes of other bidders. The government must absorb the entire debt and it should offer Air India as a zero-debt company. The government must give an undertaking of non-interference by politicians and bureaucrats during and after the sale of the airlines. The new owner of the airline must be given a free hand to retain only the needed and required number of employees (Gopinath, 2018).

If these issues are resolved, the government will be able to obtain a favourable price due to the untapped potential and hidden assets that are not on the balance sheet, but are worth their weight in gold : airport parking, departure/arrival slots, bilateral rights to prime international sectors, a vast national and international network, and ready access to an inexhaustible customer base. The country's large population has yet to board or travel by plane, and someone launching an airline today may take 15 years to have the kind of reach that Air India has – it is still a well-known and appealing brand. If the public sale is advertised and managed well, Air India can again rule the sky in its old format.

Managerial Implications

Privatization, to be successful, requires certain pre-requisites. The way disinvestment is pushed through clearly reveals that no adequate home work was done before the process was set in motion. This explains the reasons why

the government failed to mop up the target of selling the airlines. Besides, privatization has become an obsession with several people. The way it is sought to be implemented smacks of a motive which is just not disinvestment of few public sector units (PSUs), but to dismantle the public sector itself. This is an unfortunate trend and hence needs to be checked. In short, there is a need to exercise caution and restrain while privatizing PSUs. Any hasty move in this respect is going to result in avoidable negative consequences (Aswathappa & Reddy, 2018).

The *Human Development Report, 1993* (UNDP, 1993) identified seven sins of privatization. These need to be addressed while taking a call on privatization. These include :

- ✍ Privatization taking place for a wrong reason.
- ✍ Privatization taking place in a wrong environment.
- ✍ Privatization taking place to meet budgetary deficit.
- ✍ Privatization taking place with poor financial strategy.
- ✍ Privatization taking place with non-transparent procedures.
- ✍ Privatization taking place with an unrealistic labour strategy.
- ✍ Privatization taking place with no political consensus.

The enumeration of these sins is a caution not against privatization, but against privatizing with the wrong framework and without a human development purpose in mind. Undeniably, there is an urgent need to restructure Air India to improve its performance. But privatization is not the only way to bring Air India on the right track because the private sector is not rosy and glory. There is inefficiency, sickness, nepotism, and corruption even among the private sector units.

Teaching Notes

Synopsis

Most of the public sector undertakings owned by the government are incurring losses, making it difficult for the management to sustain it, disinvestment being the last option to come out of it. The government, from time-to-time, pumps taxpayers' money for their revival without much success, thereby squandering limited resources unproductively. Though, the airline - Air India is a national treasure and the national identity across the globe, it should not be a perpetual stress on national treasury. Though the Maharajah has surrendered due to its ever-increasing losses and mounting debt beyond one's own imagination and repair, time and again it has proved its loyalty in the times of emergency. Therefore, one wonders, whether it is worth to disinvest the government's interest in the airline ? Can it still be revived and bring it on the road of success ?

Teaching Objectives

The students of management are required to initiate discussion and brainstorm ; apply appropriate theories, concepts, and principles ; make use of case studies on revival, discuss various tools of operation research ; and suggest whether the beleaguered airline will still be revived and saved.

The privatization technique has already been tried out in many countries such as Great Britain, China, the US, Turkey, Brazil, Mexico, and Japan. Privatization is sought to be achieved through any or more of the four important routes. Table 2 brings out the comparative picture of the four important routes of privatization.

Table 2. Comparative Picture of the Four Important Routes of Privatization

| Methods of Privatization | Corporate Governance Improvements | Feasibility Better and Speed | Capital and Skill Access | Government Revenue Increase | Greater Objectivity |
|--------------------------------------|-----------------------------------|------------------------------|--------------------------|-----------------------------|---------------------|
| Sale to a Third Party | + | ---- | + | + | ---- |
| Employee Buyout by Management | ---- | + | ---- | ---- | ---- |
| Equal – Access Voucher Privatization | ? | + | ? | ---- | + |
| Spontaneous Privatization | ? | ? | ---- | ---- | + |

Source : World Bank (1996), p. 52.

Potential Audience

Graduate and post graduate students and mid-level executives pursuing executive management education. The class can be divided into two groups – one for disinvestment and another against it. The group for disinvestment can discuss various causes and reasons that have led to its present state of distress and how best the government can off load its investment by attracting bidders on favorable terms and conditions. The second group can discuss and identify how to save the airline from distress sale and what measures can be undertaken to revive the loss-making unit.

Methodology

The case can be distributed on the previous day so that students can discuss it in detail overnight and present their views on the following day. Time for presentation could be 15 – 20 minutes followed by discussion for 30 – 45 minutes.

At the end, the teacher in charge may give his/her concluding remarks to answer the following questions.

Analysis of Each Question Raised

(1) Should the Government really sell Air India, the country's only national airline ?

No, as this is the only national carrier which is rich in assets and other achievements. The national carriers are helpful when the nation is in crisis – national and international. Moreover, AI is an official carrier of leaders of national importance such as the President of India and Prime Minister.

(2) What went wrong with Air India?

There are various reasons which contributed to the failure of AI such as political interference, redtapism, bureaucratic management, increase in competition, the adverse impact of exchange rate variation, less income in passenger revenue, low monetization of assets, non-availability of proper fleet, liberalization in granting bilateral agreements with foreign countries, mismatched international operations, piecemeal recapitalization weakens turnaround efforts, huge interest burden due to debts, etc.

(3) If at all the Government wants to sell it, what should be the terms and conditions to attract the bidders?

No one will acquire the airlines in the present shape and, therefore, the terms and conditions that the bidder must fulfill must be lenient and favorable.

(4) Air India may not attract attractive bidders. Discuss.

As long as to sell AI is a political decision and not professionally motivated and which is characterized by the bureaucratic control and supervision, the chances of getting more and more bidders would be less.

(5) Is it advisable for the Tata Group of companies – who once upon a time was its biological father – to intervene to save the sinking Maharajah?

Yes. Air India is their own baby adopted by the Government of India under the umbrella of nationalization.

(6) The role of the Government in attracting the potential bidders is important and crucial. Discuss.

If the government wants to attract more and more bidders, it is advisable for the government to remain neutral throughout the process. The nationalization process can be outsourced to the specially appointed bodies of the government such as Group of Ministers, Parliamentary Standing Committees, etc.

(7) What measures can the Government still undertake to save the Maharajah being dethroned?

Its management, operations, and other activities must be entrusted in the hands of professionals especially appointed without any political supervision. Adopt the principles followed by private operators and run the AI.

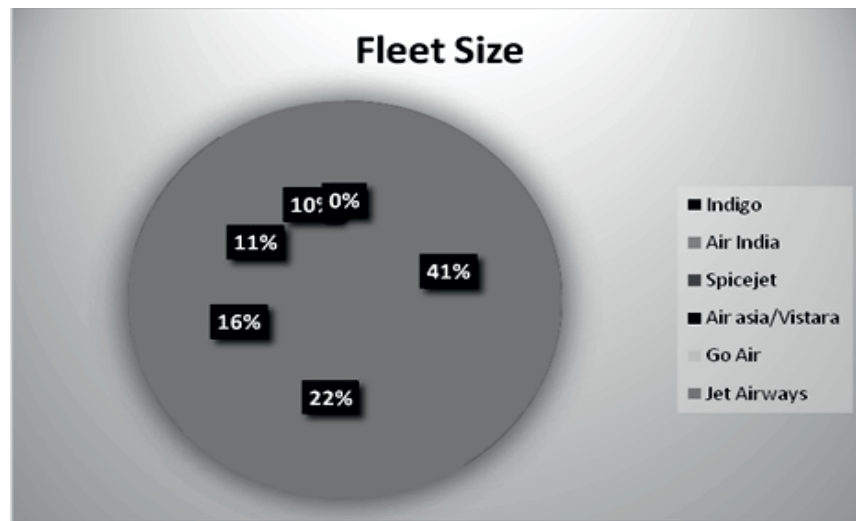
The students can use the following numerical tables and graphs provided to add to their empirical evidence for the decisions that they are going to take. Table 2 provides a comparative picture of the four major privatization paths and their impact on corporate governance, speed and feasibility, access to capital and skills, revenue to the government, and deal fairness. Table 1 and Figure 1 provide the market share of AI and its competitors for the years 2017 – 2019. Table 3 and Figure 2 provide the fleet size of AI along with other private operators for the year 2019 ; whereas Table 4 and Figure 3 provide the details of the number of employees on roll for 2019. Table 5 and Figure 4 depict a comparative analysis of revenue statement for 2007 – 08 to 2018 – 19. Each table is well represented by a Figure for a quick understanding of the numbers provided in the tables. Besides the tables and graphs, for the purpose of better analysis and to arrive at logical conclusions, Appendix A, Appendix B, and Appendix C provide a list of reasons for Air India's losses, Air India's attractions, and potential bidders' potential deal value.

Table 3. Fleet Size as in 2019

| Airlines | Fleet Size |
|------------------|------------|
| Indigo | 309 |
| Air India | 171 |
| Spicejet | 120 |
| Air asia/Vistara | 83 |
| Go Air | 74 |
| Jet Airways | 0 |

Source : Directorate General of Civil Aviation (2017 to 2019).

Figure 2. Graph Representing the Fleet Size as in 2019



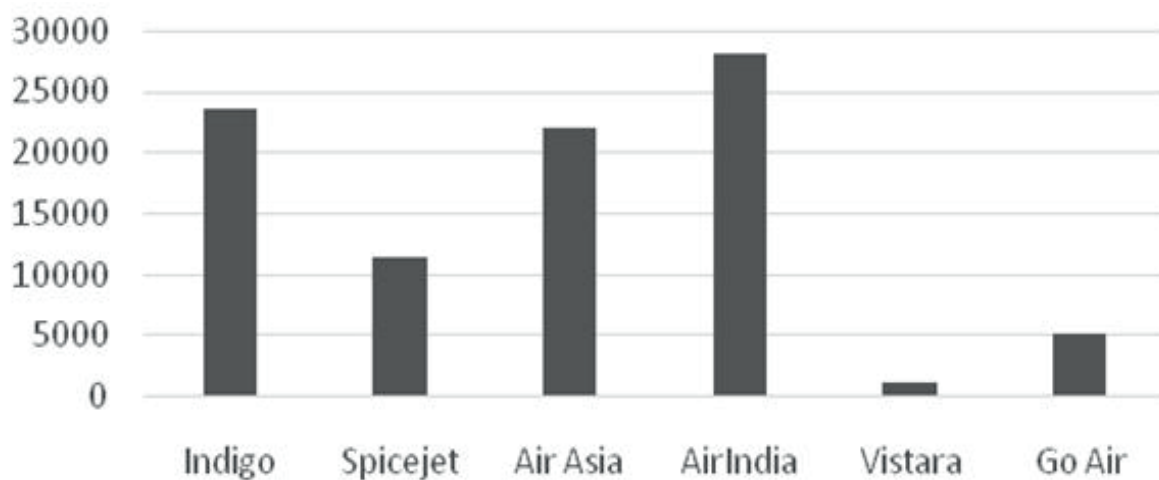
Source : Directorate General of Civil Aviation. (2017 to 2019).

Table 4. Strength of Employees of Airlines as in 2019

| Airlines | No. of Employees |
|----------|------------------|
| Spicejet | 11399 |
| Air Asia | 22000 |
| AirIndia | 28085 |
| Vistara | 1000 |
| Go Air | 5000 |

Source : Owler.com (n.d.).

Figure 3. Graph Representing the Strength of Employees of Airlines as in 2019

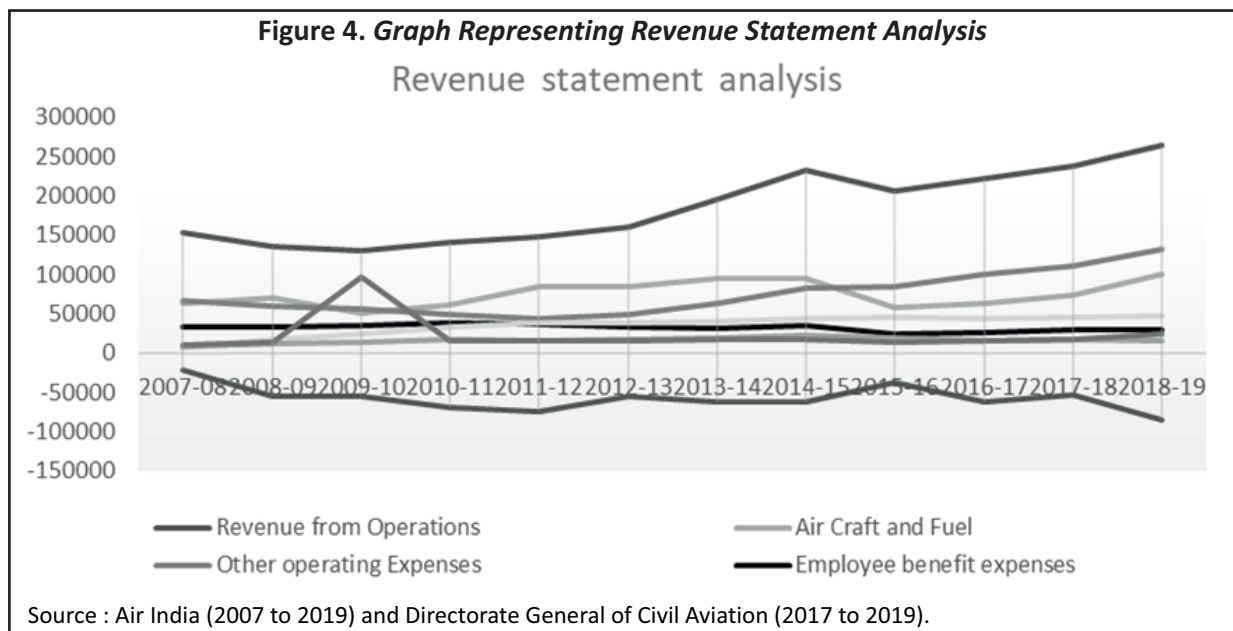


Source : Owler.com (n.d.).

Table 5. Important Financial Elements from Profit and Loss Account (Rupees in Million)

| Particulars | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|--------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Revenue from Operations | 152574.7 | 134793.8 | 130556.8 | 140620.1 | 147138.1 | 160721.1 | 194807.4 | 232452.4 | 206103.3 | 221971 | 238449.4 | 264305.9 |
| Air Craft and Fuel | 62525.1 | 70606.4 | 50150.2 | 61120.6 | 85116.7 | 83629.6 | 94407.1 | 94722 | 58454 | 63453.3 | 73626.9 | 100344.6 |
| Other Expenses | 66023 | 58717.5 | 55142 | 48968.7 | 43191.6 | 48873.4 | 63303.2 | 82142.5 | 84442 | 99650.9 | 110099.8 | 131113.9 |
| Employee Benefit Expenses | 32245 | 33388.5 | 35567.2 | 37514.9 | 35666.5 | 32547.3 | 31521.9 | 34836.6 | 23455.2 | 25645.9 | 29463.9 | 30052.3 |
| Finance Cost | 7013 | 17715.6 | 24561.9 | 32407.9 | 38860.7 | 38689.6 | 40713.4 | 42827 | 44740 | 42845.7 | 44640.9 | 47113 |
| Depreciation and Amortization | 7616.6 | 12258.9 | 13887.6 | 16901 | 15968.3 | 17003.7 | 18955.7 | 22103.9 | 18677.8 | 16023.4 | 16673.8 | 15879.3 |
| Other Expenses | 10132.9 | 13993.2 | 95883.2 | 16024.4 | 14557.3 | 15471.4 | 16333.7 | 17695.1 | 14453.2 | 15713.3 | 17321.5 | 24550.8 |
| PAT | -22261.6 | -55482.6 | -55524.4 | -68651.7 | -75597.4 | -54901.6 | -62796 | -62804.2 | -38367.8 | -62815.4 | -53377.4 | -84748 |
| EPS | -153.5 | -382.6 | -371.7 | -58.1 | -30.85 | -9.24 | -4.8 | -3.76 | -2.23 | -2.9 | -1.97 | -2.9 |

Source : Air India (2007 to 2019).



Author's Contribution

The idea of writing a case on Air India was conceived by the author himself with an intention of creating brain

storming among the students of management in various B schools across the globe. The views expressed in the case are purely his own, unintentional, apolitical, and academic.

Conflict of Interest

The author certifies that he has no affiliations with or involvement in any organization or entity with any financial interest, or non-financial interest in the subject matter, or materials discussed in this case study.

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Disclaimer

This case was prepared by the author for the sole purpose of aiding classroom discussion. The case is not intended to serve as an endorsement, or source of data, or illustration of effective or ineffective management, or to criticize the public sector undertakings or its officers at all levels.

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Appendix

Appendix A. *List of Reasons for Air India's Losses*

- ✧ Increase in competition.
- ✧ The adverse impact of exchange rate variation.
- ✧ Less income in passenger revenue.
- ✧ Low monetization of assets.
- ✧ Non-availability of proper fleet.
- ✧ Liberalization in granting bilateral agreements with foreign countries.
- ✧ Mismatched international operations.
- ✧ Piecemeal recapitalization weakens turnaround efforts.
- ✧ Huge interest burden due to debts.
- ✧ Sub-optimal aircraft utilization.
- ✧ The productivity of the bloated workforce.
- ✧ Need for review of business model.
- ✧ Government intervention.

Source : CAPA (2013).

Appendix B. *Air India's Attractions*

- ✧ The largest share of international traffic to and fro from India at 17%.
- ✧ 14% domestic traffic share.
- ✧ Flies to 72 Indian destinations and 41 international destinations.
- ✧ A fleet of 140 planes.
- ✧ Employs about 2,000 pilots, 2,000 engineers, and 4,000 cabin crew.
- ✧ Only Indian Airlines with own aircraft maintenance and repair centre.
- ✧ Training centre with Boeing 777 and 787 simulators.
- ✧ A huge pool of landholding at various places.
- ✧ Owns the largest number of aircraft hangers.
- ✧ Prime slots at domestic airports.
- ✧ 8% stake in Air Mauritius, share in telecom firm Orange SA, an IT firm SITA, Cochin International Airport, and Aeronautical Radio of Thailand.
- ✧ Owns Centaur Hotels in Delhi and Srinagar.

- ✧ The airline is a part of the Star Alliance, the biggest airline grouping.
- ✧ Flying rights to most of the countries and slots at key airports like London Heathrow and Frankfurt, which are deemed very valuable.
- ✧ Air India owns one of the largest collections of modern Indian art in the world. Air India became an art patron when princely states disbanded after independence. Its significant collection includes works by artists such as Anjolie E. Menon, M. F. Husain, and V. S. Gaitonde.
- ✧ The collection also includes priceless antique furniture, some of which is made of ivory.

Source : Shukla (2017).

Appendix C. *Potential Bidders – Potential Deal Value*

- ✧ Tata – Singapore Airlines - Extremely profitable.
- ✧ Jet-Air France – KLM-Delta - Extremely profitable.
- ✧ IndiGo and Qatar Airways - Extremely profitable.
- ✧ British Airways - Profitable.
- ✧ German Airlines - Profitable.
- ✧ Lufthansa - Profitable.
- ✧ Etihad - Profitable.

Source : Agarwal and Reddy (2020).

About the Author

Prof. Juao Costa is currently working as Professor and Research Guide, Department of Commerce, Rosary College of Commerce and Arts, Navelim, Salcete, Goa and has more than 24 years of teaching experience. He has published more than 25 research articles and two books. He has also presented papers at international and national conferences and also delivered lectures on various topics.