A CASE STUDY ON THE ACQUISITION OF AIR INDIA BY TATA SONS

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ABSTRACT

The Indian aviation industry has witnessed significant growth and transformation over the past few decades, with several challenges and opportunities shaping the landscape for domestic airlines.

The civil aviation industry in India has emerged as one of the fastest-growing industries in the country during the last three years. It can be broadly classified into scheduled air transport service which includes domestic and international airlines, non-scheduled air transport service which consists of charter operators and air taxi operators, and air cargo service, which includes air transportation of cargo and mail. Domestic traffic contributes around 69% of the total airline traffic in South Asia and India's airport capacity is expected to handle 1 billion trips annually by 2023. The Indian aviation industry has recovered fully from the covid-19 pandemic shock as indicated by the air traffic movement which stood at 327.28 million in FY23 compared to 188.89 million in FY22.

Air India suffered for its inconsistent service standards, low aircraft utilization, dismal on-time performance, antiquated productivity norms, lack of revenue generation skills, and unsatisfactory public perception.

This case study explores the process of acquisition of Air India by Tata Sons. Air India was acquired by the Tatas in January 2022. It had last acquired aircraft in 2006. The airlines negotiated the deal for over one year and finally settled on an order that will cater to all segments. It opted for four variants for its 70 wide-body aircraft - A350-900, A350-1000, 787-9 and 777-9.

Keywords: *Indian aviation industry, Air traffic movement, Air India acquisition, Tata Sons, Aircraft variants.*

INTRODUCTION

The Indian aviation sector has experienced a surge in demand driven by economic growth, increasing disposable income, and a growing middle class. However, the industry has also faced challenges such as regulatory hurdles, intense competition, and the impact of global events like the COVID-19 pandemic.

As the national carrier, Air India has played a pivotal role in connecting India globally. The case study evaluates Air India's challenges, including debt burden and competition, and assesses its restructuring efforts.

Air India, an airline fully owned by Tata Sons, has been the flag carrier of India. Tata Sons, via its fully owned subsidiary, Talace Private Limited (“Talace)”, had acquired 100% stake in Air India on 27th January 2022.

BACKGROUND

The airline was founded by Jehangir Ratanji Dadabhoy Tata as Tata Air Services, later renamed Tata Airlines in 1932. Post World War II, it had become a public limited company and was renamed Air India. In 1953, the Government of India passed the Air Corporations Act to purchase a majority stake in the airline carrier from Tata Sons. Its founder JRD Tata continued as the chairman till 1977.

When the aviation sector was opened up for private participation in 1994, 6 major private airliners i.e. Jet Airways, Air Sahara, Modiluft, Damania Airways, NEPC Airlines, and East-West Airlines, entered the market, eating into Air India’s space.

In 2000-01, futile attempts were made to privatize Air India. Plus, these low-cost airlines started causing a dent in Air India’s market share.

To combat this competition, the then UPA government decided to merge Air India and its domestic arm Indian Airlines into a single entity, which was completed in 2006. The idea was to leverage the combined assets and capital to push growth.

But, from 2006 onwards it suffered losses after its merger with Indian Airlines. This is major because, before the merger, the ministry had purchased 111 new wide-bodied aircraft which cost them close to 67,000 crores. Post the merger, the combined entity had close to 30,000 employees on its payroll.

According to the ministry reports, the airline lost approximately ₹570 million (US$7.6 million) because of extra commissions that Michael Mascarenhas, the then-managing director had sanctioned. The combined losses for Air India and Indian Airlines in 2006-07 were ₹7.7 billion (US$100 million) and after the merger, it went up to ₹72 billion (US$960 million) by March 2009.

By March 2011, Air India had accumulated a debt of ₹426 billion (US$5.7 billion) and an operating loss of ₹220 billion (US$2.9 billion). It was seeking ₹429 billion (US$5.7 billion) from the government. The then government agreed to provide Air India with about Rs 30,000 crore in equity funding, spread over a decade. As of August 31, Air India had a total debt of ₹61,562 crore.

In 2017, the Modi government announced its plans to sell the national carrier after it suffered recurring losses, particularly following a gigantic cash crunch. The airline hasn't made a profit since its merger with Indian Airlines in 2007. For the financial year ended on March 31, 2017, it reported a net loss of around Rs10,000 crore. Exhibit 1 provides the history of 90-year-old Air India.

AIR INDIA BACK TO TATA SONS

The airliner returns to its original owners after 90 years. It holds great sentimental value for Ratan Tata, who believes that this acquisition will help the group strengthen its hold on the industry and it will bring back the glory of its past. On the business front, the Tata group already has a strong presence in the industry, with a majority stake in AirAsia India and a joint venture with Singapore Airlines named Vistara Airlines. This deal will make it the second-largest domestic carrier in India.

The Government of India received seven expressions of interest for Air India, five were disqualified, and Tata Sons offered 18,000 crore rupees ($2.35 billion) for the airline, beating their closest rival, SpiceJet's Ajay Singh, who bid Rs15,000 crore. The Tatas will further have access to over a hundred planes, and thousands of trained pilots and crew. Plus, it will get 4400 domestic and 1800 international landing and parking slots in India apart from the 900 lucrative parking slots worldwide (including Heathrow).

The government's handover of Air India to Tata Group marked the end of the tedious process involved in the sale of the debt-laden airline. Tata submitted the winning bid of ₹18,000 crore as the enterprise value of Air India against a reserve price of ₹12,906 crore.

LOOKING AT THE FUTURE

The airline is currently undertaking its transformation plan named 'Vihaan.AI' which aims to reestablish Air India, as a world-class global airline with improved customer service about technology, product offering, reliability, hospitality, and becoming profitable in its operations.

Vistara, a 51:49 Joint Venture between Tata Sons and Singapore Airlines Limited ("SIA") was established in 2013 and is India's leading full-service carrier with international operations in the Middle East, Asia, and Europe. Vistara shall be merged with Air India post receipt of requisite approvals. As part of the merger transaction, SIA shall also invest Rs 2,059 crore in Air India. Post the consolidation, SIA shall hold 25.1% shareholding in Air India. The transaction is estimated to be completed by March 2024.

On this occasion, Mr. N Chandrasekaran, Chairman, of Tata Sons said: "The merger of Vistara and Air India is an important milestone in our journey to make Air India a truly world-class airline. We are transforming Air India, to provide great customer experience, every time, for every customer. As part of the transformation, Air India is focusing on growing both its network and fleet, revamping its customer proposition, and enhancing safety, reliability, and on-time performance. We are excited about the opportunity to create a strong Air India that would offer both full-service and low-cost service across domestic and international routes. We would like to thank Singapore Airlines for their continued partnership."

Mr Goh Choon Phong, Chief Executive Officer, of Singapore Airlines, said: "Tata Sons is one of the most established and respected names in India. Our collaboration to set up Vistara in 2013 resulted in a market-leading full-service carrier, which has won many global accolades in a short time. With this merger, we have an opportunity to deepen our relationship with Tata and participate directly in an exciting new growth phase in India's aviation market. We will work together to support Air India's transformation program, unlock its significant potential, and restore it to its position as a leading airline on the global stage."

CONCLUSION

The Indian airline industry presents a dynamic landscape, characterized by intense competition, regulatory influences, and the need for constant adaptation to external shocks. This case study provides insights into the strategies employed by key players to navigate the complexities of the market, offering valuable lessons for the broader aviation industry and businesses facing similar challenges globally.

Air India will give Tatas access to more than a hundred planes, thousands of trained pilots and crew, and lucrative landing and parking slots all around the world. * The airline will give Tatas successful control of 4,400 domestic and 1,800 international landing and parking slots at domestic airports.

Tata Sons has initiated consolidation of its airline entities Vistara, AirAsia India, and Air India Express under Air India, following a series of discussions with Singapore Airlines (SIA), its joint venture partner in Vistara. The move will make Air India the second-largest airline in the country in terms of fleet and market share. The group will have a low-cost carrier and a full-service airline under Air India, which will be the only airline brand in the group following the merger.

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EXHIBIT 1. HISTORY OF THE 90-YEAR-OLD AIRLINE