

Air India Privatisation: India's Aviation Sector at Crossroads

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Summary

The Indian government has been trying to privatise the national airlines Air India. While there has been an unsuccessful attempt to this effect last year, the recent budget announced by the new government announced a possible move towards privatisation of the airline by October 2019. This paper analyses the standing of Air India in terms of its market share in domestic and international markets, debt positions etc. It reflects on the possibilities that may arise in the Indian aviation sector with opportunities for Air India against the backdrop of the shutdown of Jet airways and the presence of Singapore Airlines in a joint venture with Tata in the Vistara airline.

As talks of the privatisation of Air India pick up momentum, speculations about the future of India's national carrier and the possibilities in the aviation industry are being analysed. It should be clear that with the closure of Jet Airways, the privatisation of Air India places the civil aviation sector of India at crossroad with interesting possibilities ahead including the possibility of India being an aviation hub going forward.

India's Aviation Sector

If we look at the market share of Air India domestically, it is around 12 per cent which is a distant second to the low-cost carrier Indigo ([42.5 per cent](#)). Other significant players have been SpiceJet, Jet Airways, GoAir, Air Asia and Vistara, which together command around 43 per cent of the domestic market share. In 2018, [news reports](#) suggested that most airlines lost interest in the privatisation of Air India due to the terms set by the Indian government. Tata, which is the majority owner of Vistara (51 per cent), was supposed to have been a fore runner for Air India. Vistara's market share in the domestic sector has been the lowest, but with the exit of Jet Airways this picture could change quickly. There have also been talks of international airlines taking over Air India but to little effect, even though it has the highest share by a single airline ([11 per cent](#)) in terms of international passenger traffic to and from India.

Regarded by many as a fiscal burden on the government, Air India has the potential to run efficiently if managed well and devoid of the perks that influential people in the portals of power in India have been forcing out of it for many years. One of the major obstacles to the privatisation of Air India last year has been the amount of losses and debt the airline has incurred. However, it is reported that INR29,000 crores (\$5.7 billion) of Air India's working capital debt (not secured by any asset) would be transferred [to a new company](#) leaving a burden of INR 25,000 crore (\$5 billion), which are secured longer term debts.

Opportunities

At present India has one of the highest growth rates in civil aviation and, given the economic growth prospects, figures as one of the countries with the highest projected growth levels in civil aviation passengers as well as freight. India's air traffic is expected to increase [3.3 times](#) over the next 20 years.

India's international flights ferry the highest number of passengers with United Arab Emirates (UAE) (29 per cent) followed by Singapore (8 per cent) and Thailand. These, along with Saudi Arabia, are expected to be the largest air transport markets for India. The potential of India's airlinks with South East and East Asia is noteworthy in the wake of greater economic linkages and India's 'Act East' policy.

Over the next 20 years, globally, [the largest air transport markets](#) would include China, the US, India, Indonesia and the United Kingdom in order of market share. The aviation sector is poised for huge growth and twin opportunities of the privatisation of Air India and the shutdown of Jet Airways poses a great opportunity for eligible investors as both Air India and Jet Airways were the only full-service airlines in the domestic and international markets and the rest are mainly budget airlines having limited international operations.

While India's domestic air transport sector is lucrative, one can easily appreciate that it is the international market that is most lucrative especially against the back drop of the Jet Airways saga. It has thus been conjectured that the best contenders may be foreign airline companies. As a leading foreign airline, Singapore Airlines (SIA) already has a significant presence with flights to all major Indian cities and, in the domestic segment, Vistara (where SIA has a 49 per cent stake) is only expected to do better being the only full service airline after the collapse of Jet Airways. The international reach of SIA could be easily harnessed by Vistara to reap maximum benefits. Yet, a single-handed takeover of Air India by SIA might be something the star alliance member may not want to venture into, even if the civil aviation foreign direct investment policies in India are changed to allow that. Tata, being a respected brand in Singapore and India with the knowledge of running businesses in India would be a natural partner to enter the deal.

If Air India's disinvestment materialises with Vistara emerging as the key stakeholder, SIA would have an opportunity to improve its services with significant cost reduction with a hub in India, which could be beneficial for routing various flights of the Asian region to Europe and vice versa. It could be even beneficial to do so for a few flights to the US. India would benefit immensely with the connectivity that SIA could provide significantly improving India's position for global tourism and business given that it is one of the fastest growing emerging economies today. It would also imply that after Ascendas and DBS Group, SIA would be the third Singapore company to have a significant presence in India and this would have implications for airlines companies in the Asian region who would have to deal with the increased competition.

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