

MAHARAJAH'S RESTRUCTURING VIA, ACQUISITION: A CRITICAL CASE ANALYSIS

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Abstract

The acquisition of Air India- a prodigal child by the Tata Group is the talk of the town. Air India was a prosperous airline till it was with its Indian aviator- JRD Tata. It started suffering losses since 2007-08, all turnaround and financial restructuring plans failed to work out and the Government had to pay Rs. 20 crore per day to keep it alive. Its disinvestment failed in 2017 but finally in 2020 Government sweetened the deal for the buyers by selling 100% of its stake in the airlines and Tata Group won the bid. This research paper deeply analyzes the case of acquisition of Air India by the Tatas, discovers the facts which led to its catastrophe, examines the consequences of its failure, records the issues which came in the way of its sale, assesses the viability of its restructuring via- 100 per cent disinvestment plan and sheds light on the gravity of business restructuring mechanism. It also examines the facts, issues and decision of the case. This case is very important as Air India was once a pinnacle airlines of India and also amongst the major international airlines of the world. It is a prominent case to underscore the significance of business restructuring tools for the rehabilitation of sick yet viable companies and the economy. The World Bank's research also recognizes that effective corporate reforms can reduce the cost of credit, increase timely repayments and lower liquidate rate amongst economically distressed companies. The researcher in this study evinces that the companies should not rely on debt and should keep a close eye on the debt because debt is one of the prime reasons for the collapse of a company and economy. Air India's restructuring is though a herculean task for the Tatas but still it is the best route for its resurrection as the acquisition will help in using the synergies of both the companies and at the end of the day it will be beneficial for the Indian Economy as a whole. The researcher eventually suggests that the Tatas should try to reduce costs, debt burden, make best use of available talent and resources, incorporate new technologies, expand its operations and implement an effective framework. The study also puts forward that due to the aftermath of COVID-19, large number of small and medium sized companies have become sick and are suffering losses, so for them corporate restructuring is the solution to revive. This novel research study will prove to be a principal research study for the researchers, policy makers and professionals in conducting future researches to study the impact of business restructuring (via, takeover of Air India). Since, Air India is recently acquired in January, 2022 so the effect can't be studied at the present

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stage. A comparison of various ratios and statistical tools before and after restructuring can be done in the following years to measure the benefits of restructuring of Air India.

Keywords: Air India, Acquisition, Turnaround, Business Restructuring, Disinvestment, Tatas and Synergies.

I. INTRODUCTION -

Debt-laden Air India (hereinafter referred as 'AI') once had iconic status and enjoyed monopoly position in the initial years of its constitution but in the last four decades it witnessed catastrophic fall and descended gradually with the competition from the private airlines. It was nationalized in the year 1953 and the government started to focus on its financial package instead of focusing on its strategic and operational package. Many futile attempts were made by the government in divesting its partial stake in AI. Eventually in January 2020, disinvestment of its 100% stake was decided by the government after failing to attract prospective bidders in its partial-stake sale and Tata Group emerged victorious in buying the airlines.

The financial state of the airlines is very fragile along with its limited resources. It still continues to own significant market share of India. A World Bank research suggests that for saving viable businesses, corporates should be reformed effectively which will lead to increment in timely repayments, reduction in the cost of credit, etc of the distressed companies. This reformative deal is homecoming to the Tatas and this group is seen as its savior at the moment, since it promises to bring required capital and strength to the debt-trapped airline. It calls for enormous strength from the Tatas, their wisdom, strong financial package, professional management and effective leadership to reshape financial condition of the airlines. The researcher conducts the critical study of the failure of Air India, disinvestment strategy of the government and its acquisition by the Tata Group. This research study analyzes the issues faced by Air India and Tatas in the acquisition. It is a Qualitative research in which an in-depth study of the case is made.

II. URGENCY OF THE STUDY -

AI was once a royal domestic and also amongst the major airlines of the world. Hence, it becomes necessary to discover and deeply analyze the facts which led to its woe. As the economies at present have suffered badly due to COVID-19, so the small and medium sized businesses have suffered heavy losses globally. It is crucial at this point of time to revive and rehabilitate these small and medium businesses instead of their liquidation or winding up. Rehabilitation will be fruitful to the economy and this can only be done through

corporate restructuring mechanisms. The nations will bleed to death through liquidation of companies. Liquidation should be opted to as last resort only when the restructuring fails and if the company is an unviable one. So, at this point AI's acquisition is a glaring example which can show that such a big airlines company with a colossal amount of losses and debts can be revived back through its restructuring. This will be set as an example for other sick companies to restructure themselves in place of closing down.

III. SIGNIFICANCE OF THE STUDY –

The financial state of AI started is highly unstable at present as it started to suffer losses since 2006-07. In spite of heavy losses and high debt burden, the Government of India pumped in more and more funds in AI to keep it alive. The Government provided a bailout package every year to run the company, thereby saddled the airlines with a massive debt burden and also fed it Rs. 20 crore per day to keep it afloat and this amount is taken out of the taxes paid by the Indian taxpayers. The disinvestment is a big decision to put an end to the losses of AI and protect the money of Indian taxpayers.

This research work manifests that the companies should keep a vigilant eye on the amount of debt because the rise in debt leads to rise in interest payment burden as is evident in the case of AI. It is evinced in this study that excessive debts of AI is the prime cause for its failure. The research is the need of the hour and will be significant in discerning the urgency of adopting business restructuring tools for reviving sick companies, putting them back into operation and the benefit of all the stakeholders and economy. This study is very much needed for providing a strong basis for future research works.

IV. OBJECTIVES OF THE STUDY –

The objectives of the present research study are:

- i. To discover the facts which led to the turbulent financial condition of AI.
- ii. To examine the consequences of AI's debacle.
- iii. To touch on and identify the issues which came in the way of AI's sale.
- iv. To shed light on the gravity of Corporate Restructuring by studying some immediate evident effects of AI's restructuring via, 100 per cent disinvestment of its shares.

V. PURPOSE OF THE STUDY –

The researcher could not find any research study analyzing the failure and acquisition of AI and underscoring the importance of corporate restructuring mechanisms for the companies, stakeholders (such as banks, creditors, debtors, employees, etc) and economy in relation to AI. Therefore, the researcher conducts this research study to investigate the causes of the downfall of AI, study the outcomes of its failure which led to its sale and enlighten the vitality of corporate restructuring tools (via, AI's acquisition) in regard to the rehabilitation and revival of AI and the economy as a whole.

VI. RESEARCH METHODOLOGY –

The research methodology adopted for the research study is:

- ***Doctrinal Research*** involving analysis of the AI's case.
- ***Qualitative Empirical Research.***
- ***Economic and Desk Research.***
- ***Secondary sources*** of data are used.

VII. FACTS OF THE CASE –

Air India - the flag carrier airline of India, was founded in 1932 by Jehangir Ratanji Dadabhoy (JRD) Tata - first licensed Indian Pilot, in the name of Tata Airlines. The aviation wing of Tata Sons was listed as public limited company with the name Air India in 1946 and in 1948 the international service in the name of Air India International was launched as the designated Indian flag carrier, which was among the first public-private partnerships in India (the Government held 49% stake, 25% was with Tatas and the rest was owned by public). Due to the civil aviation nationalization in 1953, Air India was nationalized with the passage of the Air Corporations Act, 1953 and its founder JRD Tata continued to remain at its helm as the Chairman till 1977. Thereafter Air India kept progressing, till 2007 it mainly operated as long-haul international flight during the time of JRD Tata. In 2007 it was merged with the Indian Airlines under the name of Air India Limited and was invited by the Star Alliance to join it in 2007.

In 2006-07, the losses incurred by Air India and Indian Airlines were Rs. 541 crore and Rs. 230 crore respectively. By the end of March 2009, the losses ballooned to Rs. 7,200 crore after the merger. Air India and Indian Airlines merger was an unhappy merger as it did not work out as was planned. The merger of Air India with Star Alliance came to a standstill in

July 2011 as the Star said that Air India had not met the contract conditions. The market share of Air India was once above 60 per cent but due to severe debt the merger company's share was reduced to 17 per cent in 2012. So, the Government approved a Financial restructuring plan as well as a Turnaround plan for Air India but it did not work and the airline continued to stagger in losses with Rs. 20 crore/day being given by the Government to keep it afloat.

Air India finally became 27th member of Star Alliance in July 2014. As per the Minister of State for Civil Aviation Mahesh Sharma, "the airline had posted a net loss of Rs. 5,859.91 crore during 2014-15". On June 28, 2017, the debt-laden airline was given approval for privatization by the Government of India. In March, 2018 the Government unveiled silhouette of its much-anticipated disinvestment plan of the national carrier Air India and invited bids for the sale of 76% stake of Air India along with Air India Express (low fare subsidiary of Air India) and 50% stake in AISATS Airport Services. AISATS is a joint handling venture with Singapore Airport Terminal Services (SATS). By this time the losses of Air India soared to Rs. 8,550 crore in financial year 2018-19 and Rs. 5,348.18 crore in 2017-18. There was no prospective bidder for Air India since its total debt burden was about Rs. 48,781 crore out of which Rs. 33,392 crore would go with the potential buyer and about Rs. 15,389 crore debts was transferred to a Special Purpose Vehicle (SPV, named as Air India Assets Holding Co. Ltd.). Though the potential buyer would have got management control yet this made the disinvestment plan less attractive as the buyer would have to take 27,000 employees of Air India (40% of whom are permanent employees) along with the huge debt liabilities.

All the attempts of divestment process of the ailing airline failed to yield results and it seemed that the airlines was on its last leg. Then ultimately the Government in late 2019 decided to sell 100% of its stake in Air India and Air India Express along with its 50 per cent stake in ground-handling company AISATS. The Government issued fresh tenders in September 2021 setting a reserve price of Rs. 12,906 crore for its sale and also allowed the potential buyers to choose what part of debt they were willing to take up. The deadlines kept on extending due to COVID and finally four bidders showed up their interest of acquiring Air India.

A consortium led by SpiceJet's promoter Ajay Singh reached the forefront with Talace Pvt. Ltd. (Talace is a wholly owned subsidiary of Tata Sons Pvt. Ltd.). On October 08, 2021, Singh's consortium was posted as the second highest bidder with the tender of Rs. 15,100 crore while Talace emerged as the highest bidder with an offer of Rs. 18,000 crore which consists of taking up debts of Rs. 15,300 crore and Rs. 2,700 crore to be paid in cash to the Government. On October 25, 2021 the Share purchase agreement was signed by the Government and later the acquisition of shareholding by Talace was approved by the Competition Commission of India (CCI) on December 20, 2021. The Tata Group announced the completion of formal acquisition of Air India on January 27, 2022 from the

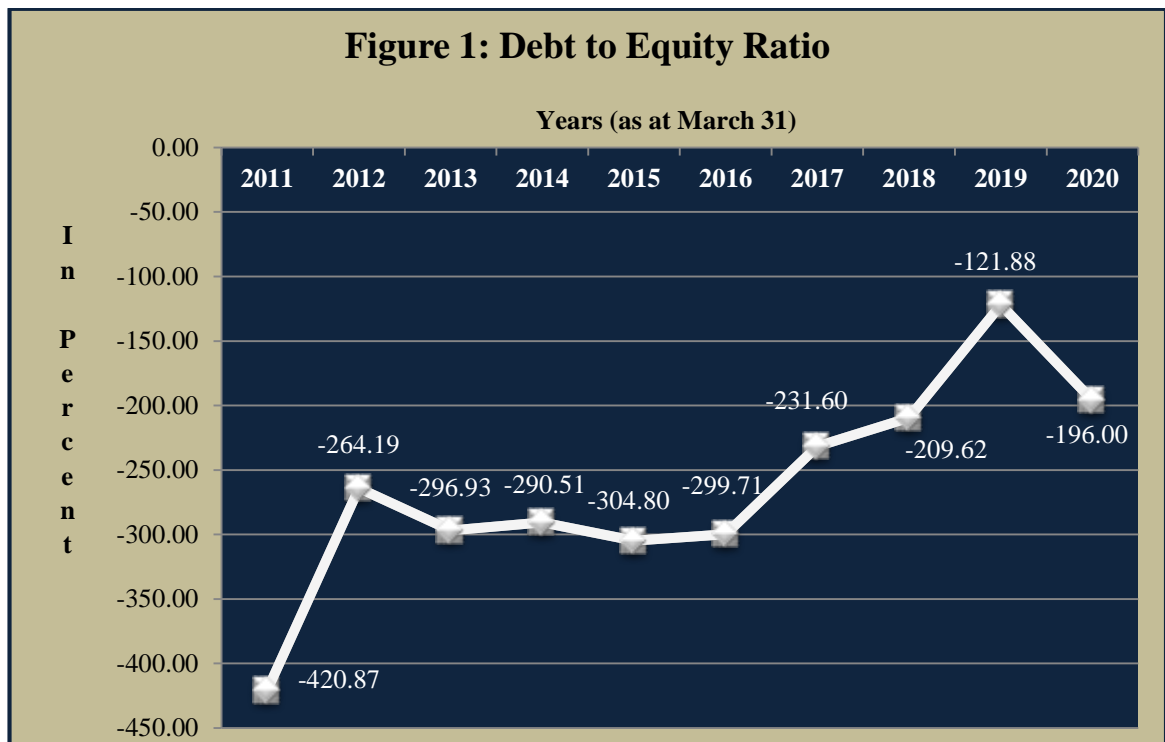
Government of India following the required approvals. Also, Tatas got loan commitment from SBI-led consortium (which includes Punjab National Bank, Bank of Baroda and Union Bank of India) for Air India on the same day.

VII. ISSUES OF THE CASE –

The key factors which culminated in the failure of Air India is its nationalization and its mismanagement. Instead of focusing on the financial condition, the Government should have concentrated on its operations and management.

The poor idea of merging both the poorly performing airlines (Air India and Indian Airlines) is also a prime reason for the downfall of Air India. After merger issues like, salary payment, compensation, promotion issues and employees strikes troubled the merged entities.

The critical issue in the acquisition of Air India is its elephantine debt burden of Rs. 61,562 crore as on August 31, 2022 and accumulated losses of Rs. 70,820 crore. Figure 1 shows the Debt to Equity ratio of Air India from March 31st, 2012 to March 31st, 2020.



Source: Secondary Data compiled by researcher from EMIS Database.

Due to the losses which started in 2007, the debts of the airlines surpassed its equity and outstretched to -420.87% in 2011, lowered to -299.71% in 2016 and was -196.00% in 2020 (Figure 1).

27,000 employees of Air India (40% of whom are permanent employees).

On the parallel lines it faced other issues such as, inability to pay salaries to employees, termination of supply of oil to it by oil companies, resignation of pilots, opposition by the Air India Corporation Employees Union for its privatization, etc.

The other issues are discussed in detail below-

Meanwhile since 2013 the cash-strapped air carrier is unable to pay employees dues, so the pilots have made consistent reminders and requests to pay their dues and have from time to time gone on strike. The pilots in January, 2014 said that they were being paid 75% of their rightful dues. An ex-pilot of Air India filed insolvency application against the airline in accordance with Section 9 of the Insolvency and Bankruptcy Code, 2016 (IBC) in National Company Law Tribunal (NCLT- New Delhi Bench) for the settlement of his claims of Rs. 67.84 lakh from the airline (alleging discrepancies in payment of his salary from 2012-2016). He mentioned in his plea that upon serving a demand notice on January 03, 2018 to Air India, without any communication he was remitted a sum of Rs. 29,39,500 in his account. In February 2019, the NCLT adjourned the hearing in the matter sine die after Air India submitted to the NCLT that a similar matter was pending before the Hon'ble Supreme Court.

A person aware of the facts said that nearly Rs. 1 crore and Rs. 70 lakh dues were claimed by the serving and former pilots for the period between July 2012- January 2016. On June 30, 2021, Bharat Zaveri- the owner of operating creditor BKP Enterprise filed a petition to initiate insolvency resolution process of Air India under Section 9 of the IBC (the date of Airline's default was March 11, 2013). The NCLT did not grant the interlocutory application and dismissed it on the ground of the statute of limitations. In June 2020, The Indian Commercial Pilots Association wrote to the Chairman and Managing Director of Air India to clear their dues worth of about Rs. 1,200 crore and would take the company to NCLT upon its failure in payment. Such cases could create hurdles to the plans of floating Expression of Interest (EoI) for disinvestment of the stake of Air India.

IX. DECISION –

Thereafter the pilot approached the Supreme Court in August 2019. The Apex Court said that it had the knowledge of the pending dispute but the same dispute can't come in the way of NCLT hearing under Section 9 of the IBC and under Section 9, the employees acting as

operational creditors can initiate insolvency proceedings against the corporate debtor. The two-judge Supreme Court Bench asked the NCLT to consider afresh the insolvency petition filed by the pilot. On November 27, 2019 the NCLT agreed and heard the case and sought Air India's response by December 09. The petition of Bharat Zaveri was dismissed by the NCLT on July 09, 2021 and said that the application was barred by limitation period of three years as three years limitation period had lapsed. As of March 31, 2020 the accumulated losses of the airline were Rs. 70,820 crore and as on August 31, 2021 the debts of Air India shot up to a gargantuan amount of Rs. 61,562 crore. Also the Secretary of the Department of Investment and Public Asset Management (DIPAM) Tuhin Kant Pandey said that over the last decade the government has infused Rs. 1,10,276 crore in the national carrier to keep it afloat in the form of equity and sovereign guarantees. This implies that in the last ten years more than a trillion rupees of the taxpayers and public funds have been used for the survival of the ailing airline.

On October 11, 2021 the Government issued a letter of intent to Tatas which confirms the willingness of the Government of selling its 100% stake in Air India at Rs. 18,000 crore as tendered by Talace. AIAHL will hold remaining debts of the airline of Rs. 46,262 crore (as out of Rs. 61,562 crore, Rs. 15,300 crore of debts will be taken by Tatas). Tatas will also have to retain all the employees of Air India (12,085 employees) and of Air India Express (1,434 employees) for a year and if any employee has to be retrenched then an option of voluntary retirement scheme (VRS) will be given to the employee, only after the first year of takeover by the bidder. Air India has 8 logos which will be transferred to Tatas. With this acquisition 8 logos of Air India will be transferred to Tatas, Tatas will get access to a fleet of 117 wide body and narrow body aircraft of Air India and 24 narrow body aircrafts of Air India Express besides getting control over 4,400 domestic and 1,800 international landing and parking slots at domestic airports.

The share purchase agreement of the strategic disinvestment of Air India was signed between the Tata Sons and the Government on October 25, 2021. This epoch making signing is marked as the first sale of a Public sector undertaking after the sale of Indian petrochemicals Corporation Ltd. in the year 2002. Once the consolidation of the operations of all the three airlines of Tata Group is completed, the Tata Group will become the second largest domestic airline as currently the three airlines have a market share of 26.9%. Now, Tatas have:

- Two budget airlines – Air Asia India and Air India Express
- Two Full service airlines – Vistara and Air India.

X. IMPLICATIONS OF THE STUDY –

The Government had hastily relied on debts for the survival of AI but conversely this rose the debt burden and also increased the interest payments burden. Eventually, AI had a very high debt-equity ratio that reached -196% as at March 31, 2020, which created a great problem for the survival of AI. The higher cost of debt increased weighted average cost of capital higher and higher. Therefore, it is advocated by the researcher to reduce the costs, make best use of available talent and resources without wasting them, incorporate new technology, make expansion in new areas, eliminate business inefficiencies, etc. The researcher believes that the business restructuring of AI will increase the value of AI in coming years, gain competitive advantage, eliminate its inefficiencies, rebuild structure of AI from the ground by implementing an effective operational, managerial and financial framework, ensure capital management and keep debt load under control which will make AI profitable. It will certainly restore and consequently increase its creditworthiness in the market.

XI. FUTURE IMPLICATIONS OF THE STUDY –

This research work will be extremely beneficial for the researchers, policy makers and professionals in conducting future researches to assess the impact of business restructuring of AI (via, takeover and disinvestment of AI). AI is recently sold to the Tata group in January, 2022, hence due to this reason the impact can't be assessed at this stage. Various ratios (namely, current, quick, debt to equity, interest coverage, net profit margin, return on capital employed, salaries and employee benefits to net sales, etc) can be used employed to make out and discover the benefits of AI's restructuring. The practicality of corporate restructuring tools can be better comprehended later when a comparison of profits and losses, incomes and expenditures, costs, etc will be made before and after restructuring of AI via, hypothesis testing and various statistical tools such as Paired Sample T-test, etc. This study will build a strong edifice for further researches.

XII. CONCLUSION –

Tatas have taken the troubled airlines at the worst time, though Air India is distressed still its substantial potential is its own international network. It continues to own 13% of the market and along with Vistara's 8.3% share will make a robust platform for a sturdy airline. In the past decade the demand for international journeys has increased swiftly, so Indigo, SpiceJet, Emirates, etc have cashed in on the demand. It is only with the strong manifesto and managerial expertise of Tata's, that the passengers could be weaned away from other airlines. Under the marquee group it is hoped that the airlines may make most potent revival. It is a congested market along with strong competition therefore, Tatas will have to make strategic market offering (as has been done at the Lufthansa Group). Tatas have

seen catastrophe business turnarounds with TISCO (Tata Iron and Steel Company Limited) and also turned TELCO (TATA Engineering and Locomotive Company) into an advanced automotive manufacturer which owns Jaguar Land Rover.

Tata group is a fat cat having deep pockets, so Air India will undoubtedly be over backed and will get adequate support from the group. Someday it will become a blue-eyed child of Tatas. Indian economy will see increase in foreign exchange earnings because Air India is predominantly an international airline. Air India continues to carry out yeomen service by distributing relief materials, evacuating stranded Indians from different countries (currently from Ukraine) in the times of disasters and extraordinary situations. This has always added to the goodwill of the airlines. This acquisition is touted as the significant disinvestment process but still it is welcomed by all the stakeholders and can be seen as a rectification done to correct the wrong done to Air India in 1953 by taking it from the Tatas. This form of corporate restructuring is indeed the burning need of the hour and is hailed as the best resuscitation panacea for Air India's revival. It will be beneficial for all the stakeholders as well (eg. the employees, creditors, debtors, the Indian economy etc) and is believed that the homecoming of Air India into the Tata Family will regain its glory of halcyon days of iconic status.

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