

What is the problem with Air India?

The sale of government-owned airline, Air India, is in jeopardy due to a lack of buyer interest. Private airlines such as IndiGo and Jet Airways did evince some enthusiasm but have since opted out of the race. This seems to have pushed the Central government to extend the deadline for submitting a bid. The Centre had earlier approved the sale of a 76% stake in Air India.

The airline's poor financial situation is what makes it largely unappealing. The airline had a debt burden of around 48,781 crore as of March 2017, which poses a huge financial risk to a buyer.

To address this issue, the government has offered to transfer about a third of the debt to a special purpose entity. But a buyer will still have to assume responsibility for debt worth 33,392 crore after acquisition – still a significant burden for many. The total current and non-current liabilities of IndiGo, the market leader in terms of domestic market share, for instance, add up to only around 14,000 crore.

Apart from the huge debt burden, Air India has also been losing money for over a decade, with accumulated losses of 46,805 crore. In 2016-17, the airline suffered a net loss of 5,765 crore. A major reason behind its huge losses is the cost of paying interest on its massive debt.

Some analysts believe that Air India may not be worth anything to its buyers as they are unlikely to obtain any free cash flow after paying money to lenders. In fact, they may have to pay money from their own pockets if they assume personal liability for the debt.

A buyer with hopes of turning around Air India may still emerge out of the blue and make a bid. Some believe that such a buyer could combine its own business operations with Air India's and reap the benefits of a synergy. Selling some of Air India's assets to pay back a portion of the debt and renegotiating loans are other options on the table. The buyer could also make use of Air India's accumulated losses to offset tax payments in the future. This will reduce the effective debt burden.

If no buyer turns up, the government could be forced to either continue running Air India using taxpayer money or just shut it down and sell off its assets.

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