

# Tata's Endeavor to Make Commanding Presence in Airlines Arena

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**Abstract:** India has surpassed the United Kingdom to become the world's third biggest domestic aviation market, with the UK anticipated to overtake India as the world's third largest air passenger market by 2024. In the next four years, India's aviation sector is predicted to see investment of Rs. 35,000 crore (US\$ 4.99 billion). By 2026, the Indian government plans to invest US\$ 1.83 billion in airport infrastructure as well as aviation navigation services. Aviation sector in India suffered huge losses due to pandemic restrictions and travel ban in 2020. Oil price hike since February 2021 also cause some pain for airlines enterprises. According to the Economic Survey of India, the Indian aviation sector has begun to recover as the COVID-19 vaccination is being rolled out at a faster speed and worldwide travel restrictions are being eased. Indian Government guided by prime minister Narendra Modi decided strategic sale of national carrier Air India in January 2022 as disinvestment of loss-making airlines became a priority. TATA owned company won the bid to take over cent percent stake of Air India along with AI Express and half of AISTATS by January end 2022. The dominance of private players in Aviation sector has become evident with the deal.

**Keywords:** Airline's business, Aviation sector, Disinvestment, Strategic sale, TATA- AI deal, Privatization.

## 1. Introduction

India's airline journey is more than a century old. It started in pre-independence time under the British rule when French pilot Monseigneur Pignet flew the first commercial flight from Allahabad to Naini to carry thousands of airmails on February 18<sup>th</sup>, 1911. In December 1912, the Indian State Air Services, in partnership with Imperial Airways of the United Kingdom, launched the first domestic air route between Karachi and Delhi. Tata Sons jumped in the foray in 1915 to run airline service between Karachi (now in Pakistan) and Madras to deliver airmail on regular basis without any government assistance. From January 24, 1920, the Royal Air Force began regular airmail service between Karachi and Bombay. India was the first country to build civil airports. In 1924, construction began in Calcutta's Dum Dum, Allahabad's Bamrauli, and Bombay's Gilbert Hill. The Department of Civil Aviation was established to handle all civil aviation issues. In April 1927, the Aero Club of India was founded. Tata Airlines was founded in 1932 as a branch of Tata Sons Limited. On October 15, 1932, it began Air Mail services on the Karachi, Ahmedabad, Bombay,

Bellary, and Madras routes. In Bangalore, Walchand Hirachand founded Hindustan Aeronautics Limited (HAL) in collaboration with the then-Mysore government in 1940. In 1946, TATA Airlines became a public limited corporation and was christened as Air India. Nine air transport companies were functioning at the time of independence in India. When Orient Airways relocated its base to Pakistan, the number was truncated to eight. Tata Airlines, Indian National Airways, Air Service of India, Deccan Airways, Ambica Airways, Bharat Airways, and Mistry Airways were the airlines in operation at the time. These airlines were transporting both air freight and people within and beyond the company's borders. In 1948, Air India and the government inked an agreement for Air India Foreign Ltd to conduct international flights. Air India began international operations on June 8, 1948, with a weekly flight connecting Bombay and London via Cairo and Geneva. In 1953, the government approved the Air Corporation Act to purchase a controlling share in Airline from TATA Sons. Deccan Airways, Airways India, Bharat Airways, Himalyan Aviation, Kalinga Air Lines, Indian National Airways, Air India, and Air Services of India were the eight formerly separate domestic airlines that were amalgamated. In 1972, the International Airports Authority of India (IAAI) was established. In 1986, the National Airports Authority was established. In April 1990, the government passed the Open-sky policy, which permitted air taxis to conduct flights from any airport, both charter and non-charter, and to set their own flight schedules, cargo, and passenger pricing. After nearly 37 years, East-West Airlines became the country's first national private airline. More over 10% of domestic traffic was carried by India's six private airlines. Many foreign airlines began offering international flights. In 1995, there were 42 airlines flying to, from, and through India. In October 2000, Sahara Airlines was renamed Air Sahara. In 2003, Air Deccan began operating as a low-cost carrier. In June 2004, GoAir began operations as a low-cost carrier. The services of Kingfisher and Indigo Airlines began in May 2005 and August 2006, respectively. In 2005, Indian Airlines was renamed Indian. Air India, Indian Airlines, Jet Airways, and Air Sahara had been given permission to conduct foreign flights by the government. In October 2000, Sahara Airlines was renamed Air Sahara. In 2003, Air Deccan

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began operating as a low-cost carrier. In June 2004, GoAir began operations as a low-cost carrier. The services of Kingfisher and Indigo Airlines began in May 2005 and August 2006, respectively. When Air India and Indian Airlines amalgamated in 2007, Air India Limited was formed, and the airline received its first Boeing 777 aircraft. Between 2009 and 2018, the Indian government established a turnaround panel with the goal of selling a 76 percent share in Air India. Unfortunately, no bids were submitted. In the meantime, the loss of Air India became exorbitant. Pandemic in year 2000 delayed stake sell initiative. Entire Airlines industry went through a massive loss due to travel ban and restriction on mobility. Situation started to normalize in later half of 2021 when vaccine rollout became effective in controlling the dreadful virus spread. TATA won a bid for a 100% interest in Air India in 2021, regaining control of the airline after nearly 70 years of separation.

## 2. Historical Background

Air India became burdensome white elephant of India since private players started running their service in post liberalization time. It couldn't keep up with competition in liberalized market situation. The first endeavor to sell the airline strategically occurred in 2001, when Atal Vihari Vajpayee was the Prime Minister of India. The NDA government sought to sell off 40% of the airline's stake at the time. Numerous renowned carriers with international fame indicated interest at first such as Lufthansa, Swissair, Air France-Delta, British Airways, Emirates, and Singapore Airlines. In addition, Indian conglomerates such as the Hinduja Group and the Tata Group got involved with buying inclination. When the government made it clear that any foreign airline that wants to bid must collaborate with an Indian enterprise, most airlines dropped out. Singapore Airlines, which has a joint venture with Tata Group, stayed in the game. In addition, due diligence was performed. However, it withdrew at the last possible time. The divestiture failed because the Tatas refused to bid unilaterally. According to reports on national carrier sale, the government has invested over Rs. 1 lakh crore in Air India in the form of cash and credit guarantee support in the previous decade. However, the airline kept losing financially, with losses of about 20 crore each day in 2020-21, or \$7,046 crore. And loans piled up as well. As of March 2020, the total losses amassed were above 70,000 crores. Auditors have often expressed their reservations about the airline's ability to continue as a lingering concern. As a result, the government had to choose between liquidating the airline or closing it down. The Narendra Modi-led administration made the next noteworthy effort in 2017. The airline had undergone substantial modifications by that period. The merger of Air India and Indian Airlines in 2007 exacerbated the airline's already precarious financial situation. The Modi administration chose to sell the majority share in the company to make up the difference. The ministerial decision was center would retain 24% of the airline's shares, while the remaining 76% would be sold. In addition, the buyer would be responsible for a percentage of the airline's indebtedness. The threat of transferring of debt scared investors away, and no bids were

submitted. The Modi administration took Air India forward to the strategic sale table in January 2021, but with major revisions in terms. The largest upheaval was the government's announcement that it would sell its whole interest in Air India. Furthermore, some of Air India's debt was moved to a special-purpose vehicle during the last two years, and the buyer was expected to take on Rs 23,286 crore of debt out of a total of Rs 60,074 crore in this stage of the disinvestment process. However, there was another stumbling block for a potential buyer, the airline would require additional funding to become viable in addition to paying off its debt. COVID 19 had already had an impact on the aviation sector. There were seven organisations that expressed interest in owning Air India, including Talace (a Tata Group company) and SpiceJet promoter Ajay Singh (in his sole discretion). Only two people competed for the bidding stage: Talace and Ajay Singh. Talace got the contract by providing a total of 18,000 crores for the carrier, compared to Singh's 15,100 crores. The deal's minimum bid was fixed at Rs 12,906 crore. The Tatas' clinching the deal contained a cash component of 2,700 crore and a debt component of 15,300 crore.

## 3. Latest Development

Besides Air India, the Tata group also received Air India Express and a 50% share in Air India SATS, a ground handling company. Apart from the emotional issue of recovering control of an airline they founded, Tatas saw AI's takeover as a long-term investment. If this deal remained efficacious, they were anticipated to invest substantially more than what they have paid the government. Tata Sons already runs two airlines in India: Vistara (a joint venture with Singapore Airlines) and AirAsia India (a joint venture with Malaysia's AirAsia). Tata Sons launched the airline in 1932 as Tata Airlines before it was nationalized. According to sources, after consulting with its partners, the Tata Group may decide to merge all airline firms under a single name. As part of the turnaround strategy, the Tata Group developed a 100-day plan for Air India to improve the airline's operational and service standards, incorporating on-time performance, customer complaints redressal, and customer care concerns. Besides airline's fleet of around 130 planes, the new owner became in charge of 4,400 domestic and 1,800 international landing and parking spaces at domestic airports, as well as 900 slots at foreign airports. International activities would account for more than two-thirds of the company's revenue.

## 4. Discussion

The sale of loss-making airlines Air India enhanced credence of Indian prime minister Mr. Modi, since he had aspired to sell the government's full stake in the airline. It was also the largest sell-off of government-owned properties and businesses since Mr Modi took office in 2014. Despite its lofty goals, the government had been unable to sell its stakes in numerous loss-making public firms. The divestiture of Air India received widespread support, as the airline's massive losses were paid from the federal budget and had proven to be a significant drain

on the government's coffers. Its losses for the 2020-21 fiscal year were estimated to be above 8,000 crores. Between 2014-15 and 2018-19, the government poured in \$15,520 core to keep it afloat. The two confirmed companies interested in bidding for Air India were Tata Sons and another consortium made up of some AI workers and Interups. Since 2018, the Narendra Modi administration has attempted to privatize the national carrier twice. There were no takers for a previous effort to sell a 76 percent share. Air India had a net debt of around 61,562 crores as of August-end 2021, having been unprofitable since a merger with defunct Indian Airlines in 2007, requiring it to rely on public money to stay afloat. A successful sale of Air India became critical for the government to stop the flow of public funds to the loss-making firm and increase its coffers as it prepares to resurrect the pandemic-ravaged economy.

### 5. Conclusion

As Indian market is greatly untapped, Air India is a bright promise for Tata Group, with passenger growth of roughly 20% per year. The country's first airline, Tata Airlines, was created in 1932 as the country's first airline, but it was nationalized in 1953. Full-service airline Vistara, a joint venture with Singapore Airlines, and budget airline AirAsia India, a joint venture with Malaysia's AirAsia Group Bhd, are now operated by the Tata group. In October 2021, TATA Sons, India's biggest conglomerate, was selected the winning bidder for Air India. This had given the group complete control of Air India and its low-cost subsidiary Air India Express, as well as a 50% share in the ground handling business Air India SATS Airport Services Pvt. Ltd. (AISATS). The Tata company intended to expand Air India's network, update its fleet, improve customer service, and make it the world's most technologically sophisticated airline following the takeover. In the following months, the group would focus on improving Air India's fundamental service standards, on-time performance, passenger complaint concerns, and customer care unit. The new CEO's priority would be to upgrade the airline's fleet in order to extend the airline's local and international network. According to the latest Directorate General of Civil Aviation numbers, Air India, AirAsia India, and Vistara together hold a 26 percent share of the domestic air passenger market. IndiGo remained the market leader with a 57 percent market share as on September 2021. After taking over the state carrier, Tata Sons suggested bringing

low-cost carrier AirAsia India under the Air India umbrella. If Singapore Airlines (SIA), Vistara's 49 percent stakeholder, joins the company at a later point, the full-service carrier would almost certainly become part of a merged corporation. The Tata Group has devised a 100-day plan for Air India to enhance the airline's operational and service standards. The decision by the company to appoint an expatriate to pilot the privatized airline should be seen in the context of the flagship carrier fighting with renewed zeal against global airlines under new ownership. The key battleground would be increasing market share on international routes, thus an expatriate with extensive international aviation expertise would be ideal to spearhead the drive.

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