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Air India on the brink of collapse

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Kolkata, India — After decades of pampering and extravagant indulgences as a state-owned airline, India's national carrier Air India is struggling to survive the global aviation downturn. Famously known as the Maharaja or Great King after its mascot of six decades, it is now on the brink of collapse due to mounting losses and a dwindling market share.

India's civil aviation minister Praful Patel revealed on Tuesday that in the fiscal year 2008-09, AI lost over US\$1 billion and with its past losses is sitting on an accumulated loss of close to US\$1.5 billion.

Worse, with hardly anyone flying the airline and its net worth --assets minus liabilities -- totally wiped out, it neither has enough cash to pay its daily operating costs, nor the money to pay the salaries of over 31,000 employees. AI's financial mess could force it to lose its national carrier status.

According to the civil aviation ministry, AI has reached a stage where it cannot turn around by itself unless the government pumps in at least US\$2 billion of working capital.

To experts however, AI's current state is no surprise. "AI's problems have been brewing for years and its present state is a result of continuous neglect for over 15 years," said Kapil Kaul, the India-based chief executive officer of the Centre for Asia Pacific Aviation, an independent aviation market analysis firm. "The airline is not functioning as a business. With no viable business plan, no management capital, no financial capital, the airline has no story to tell."

Clearly, India's first airline and the only one until civil aviation was opened to the private sector in the early 1990s looks grounded. And the fact is, it has been grounded by an overloaded baggage of problems.

Ever since AI was founded by J. R. D. Tata in 1932 as Tata Airlines, a division of Tata Sons Ltd. (now the Tata Group) and later acquired by the Government of India in 1953, it has operated as a monopoly carrier.

The airline began facing its first competition in the early 1990s with the liberalization of

the Indian economy, which opened the aviation sector to private players. Still, during the first decade of that liberalization, with no competitor, AI continued to command a lion's share of the market.

But with the opening up of the Indian economy, competition got fierce and soon AI found its turf invaded by a plethora of foreign and local players. Suddenly, from the mid 1990s, it started losing its market. "Instead of meeting competition head on though, AI allowed its decades of problems to pile up and up," said Peter Morris, chief economist of Ascend, the London-based global air transport industry consultancy firm.

But at the root of its problems lay its failure to perform in a competitive market. "While every airline in the country calibrated their business model with appropriate cost and revenues structure to meet competition, AI failed to capitalize on its dominant position, a position any airline would give anything to have," said Morris.

AI also suffered from many other serious problems like a bloated workforce, political interference, under investment in its fleet, and a weak management. Much of these problems were never solved despite the fact that AI existed in what has to be regarded as one of the key growth markets in the world, say experts.

Two other things that went terribly wrong with AI was the decision taken by Patel to purchase 111 new aircrafts at a cost of over US\$10 billion and merging it with state-owned domestic carrier Indian Airlines.

While AI does not have the earnings to service the US\$3 billion debt on 48 new aircrafts it has received so far, it was hardly able to take advantage of the synergies of a merger.

Patel however, justifies both. According to him the merger with Indian Airlines, was necessary to save close to US\$125 million in operating costs annually, and AI badly needed new aircrafts to replace its ageing fleet. The last time AI bought aircrafts was 20 years ago. Close to 100 out of its 147 odd fleet are old and big fuel guzzlers.

Experts agree. "Its problems started with the fact that in the last 15 years AI was under invested in aircrafts," said Kaul. "AI must get rid of all its old aircrafts and operate with just new or modern fleet on a smaller scale. That is the only way to get wider customer acceptance."

Rising fuel prices and the global aviation downturn in the aftermath of the financial turmoil added to its woes and its final death knell was sounded when disgusted with AI's "pathetic services," loyal fliers started deserting it in hordes.

From the majority market share that AI enjoyed in the early 1990s, its current occupancy rate has reportedly reduced to a mere 30 percent and is losing around US\$250 million each month on 10 of its busiest routes.

Nevertheless, the question now is, "does AI have a place to hide?" asks Morris.

The answer is difficult. While international carriers are grabbing a huge chunk of AI's premium market – the corporate travelers, on the home front, local competitors like Jet Airways, Kingfisher and others are eating into its domestic traveler base, despite facing tough times due to the industry slowdown.

The government however, is trying its best to revive the ailing carrier. Recent measures include cleaning up its balance sheet, reworking route structures by pulling out of non-viable destinations, rationalizing costs, and bringing in new management. Patel has promised, "to change the management in the next 30 days." Although there is no commitment yet, according to Patel, the government has to infuse US\$500 million immediately to meet the airline's day-to-day operational needs.

Besides, since AI cannot easily downsize its powerful unionized workforce, Patel says he is trying to involve them in the restructuring process. Air India will do a turnaround and he will demonstrate that in as early as six months, said Patel.

But that may be wishful thinking according to experts. "I think the only way to make AI viable again is privatization," said Vivek Gupta, senior consultant with the Hyderabad-based ICMR Center for Management Research. "That is the key because AI's management has never been serious about running AI as a competitive business. Privatization will allow AI to shed its national carrier tag, which looks imminent anyway, and will make it easier for the airline to focus on customer service and competition."

However, as per Morris, a little bit of cut here and a bit of tweaking there will not solve AI's problems. "AI needs a massive change," he said.

That means AI would need to be injected with significant amounts of investments, a professional board, major restructuring through jobs and pay cuts, elimination of non-viable routes and focus on performance-oriented culture, besides others.

"As I see it, AI's only hope lies in the airline shedding its national carrier status. It should be a private carrier with the government holding no more than 26 percent (stake in it)," said Kaul.

Back in 1971 when India abolished the Privy Purses for royal families of erstwhile princely states, the only Maharaja that did not lose his was AI. Unfortunately, it stands with a begging bowl today.

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