

Air India privatisation – a booster vaccine for economic growth

Many of us will recollect a determined Arun Shourie fervently defending the Air India sale process in the parliament in 2001. Unfortunately, despite his best efforts, the sale was called off as it was a single bid situation which too I believe was withdrawn. At that time, Air India and Indian Airlines were two different companies and the sale process was initiated only for Air India which operated only international flights. If my memory serves me right, the privatisation proposed in 2001 was a part sale of 40% holding. Since that failed attempt to privatise, we all know the price we have paid as a nation in terms of the drag that Air India has been on the government finances and of course the abysmal service quality that most of us experienced.

In comparison, the recently finalised privatisation of Air India is indeed commendable. The government deserves an applause for its determination to go ahead with it – this is even more significant as it is a 100% sale of the merged entity which hosts the entire domestic and international operations of the carrier. Effectively, compared to 2001, this was a much larger sale of a much larger entity.

A true privatisation of a government undertaking has multiple positive outcomes. A government undertaking is often not very efficient in its operations because of the multiple constraints and challenges on account of its government ownership. Any privatisation brings in far better efficiency and a better business proposition. As against this, a private company is often well-run based on commercial decisions. It ensures better usage of resources for the benefit of consumers. In this instance, Air India will now be able to better utilise the aviation bilateral rights with other countries. International travellers will therefore be able to travel more efficiently to more locations directly, instead of traveling through another country. The same effect was seen in the financial services sector with the entry of private sector entry – the product and service experience has transformed dramatically in banking and insurance with the deployment of new technologies and product variations. Another case in point is the privatisation of Maruti, post which the entire auto industry went through a transformation and every Indian could aspire to own a car.

With diminished burden of losses or enhanced profits for the exchequer, privatisation is indeed an advantage for the government. Particularly for Air India, the borrowings were very high and were only escalating by the day. The nation couldn't have afforded this borrowing cost for long. With reduced borrowings for Air India, the government will have the bandwidth to redirect its resources to other projects critical for economic development. For example, the much talked about privatisation by the Vajpayee government had released considerable resources for the flagship Golden Quadrilateral project. It gave never-seen-before boost to infrastructure creation in the country.

Often, an exceedingly efficacious initiative entails greater confidence and a renewed vigour to do even better. I believe that the enormously successful Air India privatisation will provide the government with the confidence to drive and implement more such reforms. The tremendous learnings which the government departments would have gained through this process of privatisation would be a long way in ensuring that we march ahead on this track with better ease in future. Further, experiencing the advantages of privatisation of the airlines, the support from general public towards similar exercises will surely be enhanced. Telecom sector is a classic example where post allocation of spectrum to the private sector, the country's communication and digital network has wholly transformed. It will be crucial for the government to privatise more of its not-very-well-to-do undertakings for the greater good of the economy and for better services to the citizens.

Our Views

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Another big positive of privatisation is the impact it has on economic growth, infrastructure creation, job creation. Revival of a significant business certainly boosts its entire ecosystem – partner/ vendor business, its employees and its lenders. It eventually uplifts overall tax collections and the economic environment.

Finally, any significant event such as this privatisation will boost the overall sentiment in the capital markets. I vividly remember the big fillip that our markets received post the announcement of 1991 economic reforms despite the weak economic situation. Also, any creative and constructive initiative boost the market as it gets renewed confidence in the broader reforms agenda. A positive market is extremely important for the economic growth – it not only becomes the provider of much-needed equity capital to the industry, but also brings down the overall cost of capital.

In my view, the Air India privatisation will be a significant booster vaccine for not only for the company, but also for the overall economy, industry, markets and for the government to keep pushing the major reforms agenda. I would say, well played and well done to everyone involved in this exercise of privatising a two-in-one Maharaja, the original Air India and Indian Airlines combined!

<https://economictimes.indiatimes.com/markets/stocks/news/why-air-india-sale-is-way-more-than-just-getting-rid-of-a-burden/articleshow/86937622.cms>

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