



FINANCIAL RESTRUCTURING OF AIR INDIA

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A proposal for financial restructuring of Air India would be discussed at the meeting of GoM along with Air India seeking government approval for its fleet expansion plan till 2020. The restructuring and turnaround plans, would be vetted by a Committee of Secretaries, and would then be placed before the GoM. The restructuring plan would also include a proposal for converting its high interest debt to low interest ones and the issuance of a letter of comfort for its lenders (i.e. banks and financial institutions). The letter of comfort is likely to be issued to ensure that banks and financial institutions do not classify Air India's loans as non-performing assets.

PSA's view: Financial restructuring of Air India is one of the various steps initiated by the government to keep the national carrier rolling. It is imperative to note that Ministry of Civil Aviation has also mooted for a proposal for equity infusion of Rs. 6,600 crore for the ailing carrier to enable it to clear its massive dues. The government has already infused equity worth Rs. 2,000 crore in the last two financial years. We strongly feel that such steps initiated by the government from time to time would not have a long lasting effect in improving the financial condition of our ailing national carrier. We feel that the way to improve the financial crisis of our national carrier is by privatizing Air India.

Jet Airways pledges JetLite equity shares to raise money

Jet Airways, country's largest private carrier has pledged the entire promoter's equity holding in its low-cost subsidiary JetLite with IDFC for a loan of Rs. 325 crore. Jet Airways had acquired Air Sahara for Rs. 1,450 crore in the year 2007 and re-named it as JetLite to strengthen its foothold in the aviation sector.

PSA's view: This development once gain highlights the grim financial health of the airline companies in the backdrop of growing competition, which has forced them to slash fares despite input cost remaining high. However, it is interesting to note that the pledging of the entire shares of the company indicates that Jet Airways is facing severe liquidity crisis as promoters resort to pledging of entire shares when they face liquidity problem or when they wish to exit from the company.

MAS-GMR Aerospace engineering JV to take off

MAS and GMR Aerospace Engineering ("MGAE") Limited, a 50:50 joint venture between Malaysian Aerospace Engineering Sdn Bhd (subsidiary of Malaysian Airlines) and GMR Hyderabad International,

(subsidiary of GMR Infrastructure Limited) is at the final stage. The joint venture is for setting up of maintenance, repair and overhaul facility (“MRO”) located in the special economic zone at the Rajiv Gandhi International Airport in Hyderabad. The upcoming MRO facility will have the capability to provide base maintenance services, starting with narrow bodied aircrafts like Airbus A320, ATR-42/72 and Boeing 737-NG and subsequent wide body aircrafts like A-330 and Boeing 777.

PSA’s view: The Asia Pacific countries, together with China and India accounts for 23 percent of total MRO expenditure. The demand for MRO services are rapidly growing in Asia given fleet orders and lower costs compared with the European Union and North America. It is a positive step which shall boost in the expansion of MRO facilities in India. It is imperative that in order to sustain and facilitate the development of India as a MRO hub, the government shall strive to take various measures to increase and sustain such growth by: (a) providing tax breaks and incentives to the MRO companies; and (b) review the land policy and recommend a stipulation that airport planning must include some percentage of land allocation for carrying out MRO activities.

Turkish Airlines to expand its Indian operations

After adding 11 new destinations in Europe, Asia and Africa, Turkish Airlines is now all set towards expanding its operations in India by 2012 by doubling its weekly flights to 28 and by adding Hyderabad as its third Indian destination. At present, the Turkish Airlines is operating 7 flights from Mumbai and Delhi. The Turkish Airlines wants to increase its Indian operation to compete with their Asian and American counterparts. It is also believed that the Turkish Airlines wants to increase the ambit of code share agreement with Air India to get more passengers from India to fly to or through Turkey to other places. The Turkish Airlines aims to make Istanbul, Turkey’s capital, the preferred transit point between Asia and Europe as it takes close to 3-4 hours to fly to any European city from thereon.

PSA’s view: The advent of low-cost airlines, increase in the air traffic and fleet expansion in the Indian aviation sector has opened up a whole new business avenue for global as well as domestic aircraft companies. Such expansion programmes initiated by various airline companies would certainly boost the growth of the aviation sector.

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