

## ***Not clear what the SBI Caps review is to achieve***

Though Air India is projected to post an operating profit this year—the net loss, of course could be in the region of R3,500-4,000 crore—it is not surprising the aviation ministry should ask SBI Caps to review its turnaround plan. Since FY12, when the government sanctioned its turnaround plan, the airline has lost a little under R23,000 crore. What the ministry wants to know, it would appear, is whether the turnaround is sustainable. After all, it was the collapse in global crude prices that, primarily, has led the airline to believe it can report a small operating profit this year. Also, as consulting firm Deloitte had pointed out when it was asked to review the Air India turnaround plan in 2011, it was ‘ambitious’, ‘conceivable in principle’ and required ‘massive reorientation efforts’. The revival plan entailed the PSU’s market share rising from 17% in 2011 to 21% in 5 years, and assumed competing airlines—which are today beating Air India—would grow at 10% annually as compared to Air India’s 22%; in the international market, the plan assumed that while the overall market would grow by 8-9% annually, Air India’s traffic would grow by 15% as compared to the competition’s 3-4%.

And while Deloitte had added the turnaround required no relaxation in the ‘competitive scenario’, the competition has only intensified. Jet Airways has been considerably fortified by the Etihad tie-up and there is Air Asia and Vistara to contend with as well. Also, while oil prices have collapsed compared to the earlier highs—they are, of course, trading below the levels when the plan was conceived—the rupee has collapsed from 45 to 64 to the dollar. But while the economics and the competitive scenario is very different today, the question is whether the government will pull the plug if SBI Caps says the airline can’t be turned around or whether it will pump in the remaining R17,000 crore of the original R30,000 crore turnaround plan? Especially at a time when it doesn’t have the money to recapitalise PSU banks that desperately need the funds and will see their business slow dramatically without these funds. In other words, is the review just an academic exercise?