

OK to bail out PSUs?

*CCI needs to see if Air India bailout anti-competitive*

: Given that the government has agreed to infuse R6,500 crore of equity in the chronically sick Air India (accumulated losses are R13,300 crore and debt R43,777 crore), presumably this has satisfied the bankers who've agreed to restructure its loans on Monday. Though the restructuring has RBI's approval, the question is whether this is enough, and more so for an airline that is deeply political and suffers from rampant indiscipline—its effective merger with Indian Airlines has been held up for years due to union rivalries and pilots are once again threatening a strike. Earlier this month, 120 pilots threatened to quit because pilots of the erstwhile Indian Airlines were chosen to train on the Dreamliner and the rattled management decided to defer the training by a month. And when the last AI chief put in place a professional team, the government sent it packing—in other words, the government will continue to run the airline, so if bankers are looking forward to professional managers and a hands-off government, they are in for a rude shock.

As per the original plan, AI wanted equity support of R42,920 crore till 2021—if there is no clarity on the fresh equity, why even waste the R6,500 crore and the haircut that banks will take while converting short-term loans to long-term ones at lower rates of interest, with a moratorium thrown in? And while the banks may have been taken in by the projections made by AI's management, keep in mind that when consulting firm Deloitte was asked to evaluate AI's turnaround plan, it said that it would be a long haul given that the plan envisages a situation in which AI's cost structure would be much lower than that of rivals like Jet—it projects AI's domestic market share growing at 22% annually as compared to 10% for its rivals (15% for AI vs 3-4% for rivals in the international market)!

There is also the larger question of whether a bailout for AI is anti-competitive. At one level,

equity infusion by government is the same as, say, a Vijay Mallya doing this for Kingfisher. But since Mallya has to service the equity while the government gets it free from taxpayers, there is the issue of whether this upsets the playing field for airlines. Perhaps the new chief of the Competition Commission will take a call on this.