

The Group of Ministers' (GoM) decision to give Air India (AI) R1,200 crore of equity, along with R532 crore for operating VVIP flights, is a big relief for its employees and creditors, but does little to address the larger issue of AI's viability. True, the GoM decision to allow AI to hive off its ground-handling and engineering activities into separate subsidiaries will be a big help since AI's staff-to-plane ratio will move closer to the global norm—the decision has been pending for close to two years. But more hard decisions are required and the GoM is going to meet on this again next week.

It is true much of the responsibility for AI's current state must lie at the aviation ministry's door—it cut AI's monopoly and dramatically increased competition by handing out bilaterals while, simultaneously, saddling the airline with \$11 bn of debt for new planes; just servicing these requires AI to raise revenues 2-3 times. But that's in the past. Spending R42,000 crore, which is what AI wants over a decade, to rectify a past mistake could be throwing good money after bad.

Consider what consulting firm Deloitte had to say about AI's turnaround plan, one it terms 'ambitious' and 'conceivable in principle' and which needs 'massive reorientation efforts'. The turnaround plan envisages, Deloitte says, AI's cost structure will be much lower than that of rivals like Jet and Kingfisher over the next five years, and 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) ... the stuff that dreams are made of, basically. AI's new fleet will help, though it probably needs a change in its fleet plan (the absence of turboprops limits its ability to service fast-growing markets in smaller cities with shorter runways). A critical factor is what happens on bilaterals. The GoM needs to take a call on whether it can really assure AI the kind of freedom it needs—after AI got together a turnaround team, the minister and his bunch of independent directors dismissed its key members on one flimsy ground after another. The GoM needs to decide on whether India's future bilaterals policy will depend upon AI's fortunes; and it needs to take a serious look at whether the targets are at all feasible. If not, better to cut the government's losses, and sell off the airline.