



“THE ANALYSIS OF MERGER OF TATA GROUP AND AIR INDIA ”.

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INTRODUCTION

Jehangir Ratanji Dadabhoj Tata started Tata Air Services, which was eventually renamed as Tata Airlines in 1932 and became a public limited company. The Air Corporations Act was passed in 1953 by the Indian government in order to purchase a majority stake in the airline carrier from Tata Sons.

Later, when the aviation industry was opened up to private competition in 1994, six major private airlines entered the market: Jet Airways, Air Sahara, Modiluft, Damania Airways, NEPC Airlines, and East-West Airlines.

Frivolous attempts were made in 2000–01 to privatize Air India. Furthermore, these low-cost carriers began to eat into Air India's market share. To address this rivalry, the then UPA government chose to merge Air India and its domestic business, Indian Airlines, into a single entity which was accomplished in 2006.

The plan was to use the assets and capital pooled together to accelerate expansion.

However, after merging with Indian Airlines in 2006, the company began to lose money. This is due to the fact that, prior to the merger, the ministry had spent close to 67,000 crore on 111 new wide-body planes. And, following the merger, the merged company employed about 30,000 people.

According to government estimates, the airline lost about 570 million (US\$7.6 million) as a result of extra commissions approved by Michael Mascarenhas, the company's then-managing director.

In 2006–07, Air India and Indian Airlines lost a total of \$7.7 billion (US\$100 million), which increased to 72 billion (US\$960 million) after the merger in March 2009.

Air India had a debt of 426 billion rupees (US\$5.7 billion) and an operational deficit of 220 billion rupees (US\$2.9 billion) by March 2011. The government was being sued for \$429 billion (US\$5.7 billion).

The government decided to offer Air India with approximately Rs 30,000 crores in equity capital over a ten-year period. Lately, Air India had a total debt of 61,562 crores as of August 31.

THE TATA GROUP'S PROPOSAL BEAT THE AJAY SINGH CONSORTIUM'S

The Indian government has finally found a buyer for Air India, with Tata Group being chosen as predicted to take over the flag carrier. The government sold Air India to Talace Private Limited, a subsidiary of the Tata Group's parent firm, for Rs 18,000 crore on October 8, last year, following a competitive bidding process.

Government's most recent attempt occurred in January 2020. It chose to spin off a portion of the airline's significant debt burden into a government-owned holding company created for that purpose to assist attract investors.

Tata Group and a consortium fronted by SpiceJet investor Ajay Singh were the two bidders, with Tata Group being seen as the favourite.

Mr. Singh's consortium offered INR151 billion, while Tata's bid had an enterprise value of INR180 billion. Tata's offer was chosen over the other because it met the reserve price of INR129 billion.

INTEGRATION OF ALL TATA CARRIERS IS KEY TO THE TURNAROUND OF AIR INDIA

With the handover, Tata Group now has control of four airline brands, each with its own profile, culture, and cost basis. The integration will entail examining common systems, redundant capacity, and prices while keeping competition policy in mind. Merging common systems, eliminating redundant capacity, and minimizing expenses are all part of successful integration.

The full-service carrier Air India, its low-cost unit Air India Express, and a 50% share in the airline's ground and cargo handling business, Air India SATS Airport Services, are all managed by the Tata Group (AISATS).

The new owner of Air India already owns Vistara, a full-service joint venture between the Tata Group and Singapore Airlines, and AirAsia, a joint venture between Tata Sons and Malaysia's AirAsia Investment.

As the initial euphoria over the successful handover of Air India to the Tata Group wears off, speculation about how the salt-to-software conglomerate will turn the national flag airline around has begun. Experts say a seamless integration of the group's existing air carriers with the formerly government-owned airline will be critical to the successful takeoff of the much-discussed privatization.

AIR INDIA'S 100-DAY IMPROVEMENT PLAN

A potential merger would necessitate a complete overhaul of Air India's service standards. The Tata Group has committed to significantly increasing its investment in the Air India brand. A 100-day strategy is already in the works to address immediate concerns like the airline's on-time performance (OTP), call centers, and the prompt resolution of passenger complaints.

As part of the 100-day plan, the Tata Group is said to have organized a big committee to significantly ramp up Air India services and made senior-level hiring in the airline's human resources division to build synergies. Furthermore, the Tatas have already gained experience in supplying a premium product through their Vistara partnership with SIA (Singapore airlines).

Lastly, this acquisition tends to minimise the government's role in the economy; given the difficulty of

AI's disinvestment in the past, or any disinvestment at all, this is a major accomplishment.

However, in terms of money, the agreement does not represent a significant step toward the government's disinvestment aim for this year. Furthermore, the Tatas would take care of Rs 15,300 crore of the total AI debt of Rs 61,562 crore, and will pay an extra Rs 2,700 crore in cash to the government. The debt now stands at Rs 43,562 crore. The government's assets, like as buildings, are expected to produce Rs 14,718 crore. However, the government would still be responsible for a debt of Rs 28,844 crore.

So, it might be claimed that if the government had ran AI efficiently, profits could have been created and debts paid off – rather than selling the airline (which can make profits) and still being in debt.

Apart from the emotional issue of taking control of an airline that they founded, the Tatas saw AI's takeover as a long-term investment. If this wager pays off, the Tatas will have to invest substantially more than what they have paid the government.

ANALYSIS OF THE FINANCIAL/PHYSICAL PERFORMANCE

REVENUE:

- i) Total Revenue declined from Rs.134,793.8 million last year to Rs.134,022.7 million (reduction of Rs.771.1million).
- ii) Operating Revenue for the year was Rs.131,086.2 million against previous year's revenue of Rs.132.245.2 million (reduction of Rs.1,159.0 million).

The reduction in the revenue was on account of

- a) Drop in yields coupled with global recession;
- b) Reduction in other revenue due to policy on bi-lateral and ground handling.

REVENUE BREAKDOWN 2019-20

EXPENDITURE BREAKDOWN

EXPENDITURE:

i) The total expenditure incurred during the year was Rs,190,358.3 million as compared to the previous year's figure of Rs.206,680.1 million (a reduction of Rs.16,321.8 million). Operating Expenses declined by Rs.23,157.8 million mainly due to the following: Decrease in fuel price by Rs.19060 million i.e. 29% Reduction in leasing charges due to return of leased fleet by Rs.2072.9 million i.e. 15% Savings on account of implementation of fuel gap efficiency analysis by Rs.1100 million, Reduction in booking agency commission by Rs.276.8 million: Reduction in aircraft maintenance cost by Rs.177.1 million However, the above reduction in expenditure was offset by increase in other costs viz.:

Increase in depreciation, obsolescence and amortization charges by Rs.1115.9 million i.e. by 9% due to induction of new aircraft; Increase in interest on aircraft loans by Rs.2420.4 million Le. by 63% due to induction of new aircraft Increase in interest on working capital borrowings by Rs.5220.3 million Le. by 43% due to increase in borrowing rates and working capital limit; Increase in handling charges by Rs.754.9 million due to cost of operations via Frankfurt,

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