

# THE GREAT MAHARAJHA MAKEOVER

**Dr Meena Sharma**

Associate professor, Balaji Institute of Modern Management (BIMM), Pune, Maharashtra, India  
Email - contactmeenasharma@gmail.com

**Abstract:** *Air India, one of the largest airline in India is facing a debt burden and borrowing money for its survival for last few years. On the recommendations of NITI AAYOG Modi government took a decision to reform it by restructuring and privatizing the AirlIndia. Some of the people are in favor of this privatization and some are opposing it saying it has started making profit and will be stable in next few years.*

*The question here are:*

- *Is this the only corrective measure to make it profitable?*
- *What will be the impact on the service costs of the airlines?*
- *Will privatizing the airlines will help in near future for its growth and development?*
- *Will the Maharajah (Air India) be able to keep air fare under control or will privatization have its own set of compulsions?*

*All these questions should be answered while discussing the case and suggestions and recommendations to overcome this problem.*

**Key Words:** *Debt burden, Borrowings, Restructuring, Privatization, Profitability.*

## 1. INTRODUCTION:

Air India is the flag carrier airline of India founded by J.R.D Tata as Tata Airlines on October 15, 1932 as a division of Tata Sons Ltd. (Now Tata Group). At that time it was consisted of only one Puss Moth, one Leopard Moth, one palm-thatched shed, one whole time pilot, one part-time engineer and two apprentice mechanics. After the 2<sup>nd</sup> World Aar Tata Airlines changed its name to Air India and Became a Public Limited company on 29<sup>th</sup> July 1946. The total market share of Air India was 13% in May 2017 making it the 3<sup>rd</sup> largest domestic airlines after Indigo and Jet Airways in term of passengers' carrier.

It is owned by Air India Limited, a Government of India enterprise, and operates a fleet of Airbus and Boeing aircraft serving 90 domestic and International destinations. It is headquartered in New Delhi... Air India became the 27<sup>th</sup> member of Star Alliance on 11<sup>th</sup> July 2014.

Air India's worldwide network today covers 44 destinations by operating services with its own aircraft and through code-shared flights. The important worldwide destinations covered by Air India flights are ; Bangkok, Hong Kong, Jakarta, Kuala Lumpur, Osaka, Singapore, Tokyo, Seoul, Nairobi, Frankfurt, London, Paris, Birmingham, Abu Dhabi, , Bahrain, Dubai, Muscat, Riyadh, Kuwait, Los Angeles, Chicago, New York, etc. to name a few. Air India has 38 aircrafts fleet. These include Airbus A310-300, Airbus A330-200, Boeing 747-400, Boeing 777-200, Boeing 777-200ER, Boeing 777-200LR, Boeing 777-300ER and Boeing 787-8.

### 1.1 History and Milestone

- On the 8th of June 1948, Air India introduced a regular service from Bombay to London, and two years later, Air India started regular flights to Nairobi.
- In 1954 Air India introduced its first L-1049 super Constellations and started its services to Tokyo, Bangkok, Hong Kong and Singapore.
- Air India introduced its first Boeing 707-420 in 1960 and became the world's first all-jet airline in 1962.
- Air India Moved its office to Bombay in 1970.
- In 1986 Air India introduced Airbus A310-300 the largest operator in passenger service.
- The company started using two Boeing 747-300Ms in 1988 a mixed passenger-cargo configuration.
- The 1<sup>st</sup> non-stop flight between Delhi and New York started in 1993 with its first Boeing 747-400 named Konark.
- After a gap of almost five years the company introduced twice-a-week flights from Mumbai (via New Delhi and Frankfurt)to Amsterdam on the 3rd of December 1995.
- In 1996, O'Hare International Airport in Chicago became the second US gateway for Air India
- Air India started its official website being [www.airindia.com](http://www.airindia.com) on May 28, 1997 and on 1<sup>st</sup> November it got tied with global alliance Air France.
- In 1999, Air India opened its dedicated Terminal 2-C at the newly renamed Chhatrapathi Shivaji International Airport in Mumbai.

- The third US gateway for the Airlines was at Newark Liberty International Airport in Newark in the year 2000 for its services to Shanghai.
- Air India introduced its Frequent Flyer program (“Flying Returns”) for the Canada, UK and USA routes from 1<sup>st</sup> of November, 2001.
- Air India started its dedicated special flights to Kuwait on 20<sup>th</sup> of March, 2003 to evacuate Indian citizens from Iraq.
- In the history of AirIndia the year 2003 play a very important role for its two very important events ; firstly a Global Call Centre for UK and USA was inaugurated in Mumbai on 12<sup>th</sup> July and secondly, Air India flights started operating between Shanghai and Bangkok on 11<sup>th</sup> December. .
- On the 10th of August 2004 a strategic alliance was signed with Lufthansa.
- Air India’s low cost airline ‘Air India Express was started in April 2005 and in June Air lines started its advance check-in facility in its Air India building in Nariman point.
- On the 27th of June 2007, Air India started its Cargo service carrying non-stop flights to USA.
- In December 2007 Air India was invited to join the Star Alliance and became full member in 2010. But due to not meeting the minimum requirements the invitation got postponed.
- In 2009 March for its North American operation Air India made Frankfurt Airport its European Hub and in the same year on 1<sup>st</sup> December Delhi-New York route was extended to Washington.
- On 12th March 2011, 36 flights were dispatched to Egypt to evacuate stranded Indian civilians from Cairo and this extraordinary measure was taken despite of unstable political climate in Egypt.
- Year 2012 was a year of significant loss for the airlines in India aviation market, placing it in 3<sup>rd</sup> place behind Indigo and Jet Airways.

## 1.2 Logo

“The Logo of the new airline is a red colored flying swan with the ‘Konark Chakra’ in orange, placed inside it. Air India’s logo ‘The Centaur was changed to ‘The flying swan’ and ‘Konark Chakra’ is reminiscent of Indian’s logo’.



Old Logo of Air India



New Logo

The Logo is featured on the tail of the aircraft. The colour of the air craft is ivory colour and the base is retained red streak of Air India. The orange and red speed lines running parallel from front door to the rear door signify individual identities merged into one. The Brand Name ‘Air India’ runs on the tail of the Air craft.

## 1.3 The Maharajah

In India ‘Air India’ is a Maharaja. But his blood isn’t blue. In the words of Bobby Kooka who conceived the Maharajah “He may look like royalty but he isn’t royal”.



This lovable figure made his first appearance in Air India in 1946, when Bobby Kooka as Air India’s commercial director and Umesh Rao, an artist with J Walter Thompson Ltd. Mumbai, together created the Maharajah.

The Maharajah, a rich India Potentate, symbolizes graciousness and high living. His creator gave him a distinctive personality: his outsized moustache, the striped turban and his aquiline nose.

Today, this naughty diminutive Maharajah of Air India has become a world figure. He can be a lover boy in Paris, a sumo wrestler in Toyo, a pavement artist, a Red Indian , a Monk..... he can effortlessly flirt with the beauties of the world. And most importantly, he can get away with it all. Simply because he is the Maharajah!

He has completed 71 years and become the most recognizable mascot the world over. His antics, his expressions, his puns have allowed Air India to promote its services with a unique panache and an unmatched sense of subtle humour. Air India has won many national and international awards for honour and original publicity.

Like all great men Maharajah also has had his critics, but the millions of travelers whose lives he has touched far outnumber them. And for them the Maharajah has his unmatched charm and style. He is almost like a friend to every Air India traveler. A friend who reaches out with warmth and hospitality, even to the farthest corners of the world.

## 2. STATEMENT OF THE PROBLEM:

Following are the major problems indicated in the case:

- Air India is facing a debt burden and borrowing a huge amount for its survival.
- Air India's net assets has decreased simultaneously and every year the depreciation is increasing (Annual reports of Air India for different years), increasing their debt.
- Government has taken a decision to privatize the Air India. Is this the only corrective measures to help Air India?
- What could be the other possibilities to make Air India debt free and strong and viable airlines?
- What will be the impact of privatization on its cost fare, operations and services?

According to the Ministry of Civil Aviation, reasons for Air India's losses include:

- Adverse impact of exchange rate variation due to the weakening of Indian Rupee,
- High interest burden,
- Increase in competition, especially from low cost carriers, and
- High fuel prices.

The National Transport Development Policy Committee (NTDPC), in its report in 2013, had observed that with the increase in the number of airlines in the market, Air India has been struggling to make a transition from a monopoly market to a competitive one. These struggles have been primarily regarding improving its efficiency, and competing with the private airlines.

## 3. DATA COLLECTION:

The data used in this case is from the annual reports of the Air India and different websites mentioned in the reference section.

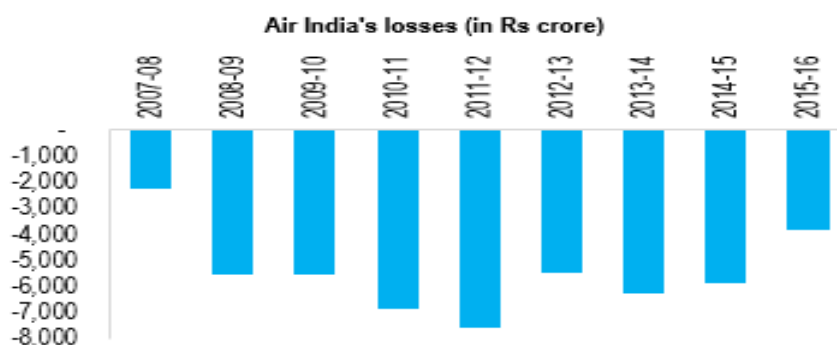
## 4. LIMITATIONS OF THE CASE:

The case is recently in news and many have their own ideas and views regarding the case. The decision is taken by the government and the authority is in the process of implementation. It is not yet implemented. As the data was not available it was difficult to study the case in-depth and Analysis could not be done in detail.

## 5. FINANCES OF AIR INDIA:

In 2015-16, Air India earned a revenue of Rs 20,526 crore and registered losses of Rs 3,837 crore. As of March 31, 2015, the total debt of Air India was at Rs 51,367 crore. This includes Rs 22,574 crore outstanding on account of aircraft loans. The figure below shows the losses incurred by Air India in the last few years (2007-16).

Figure-1



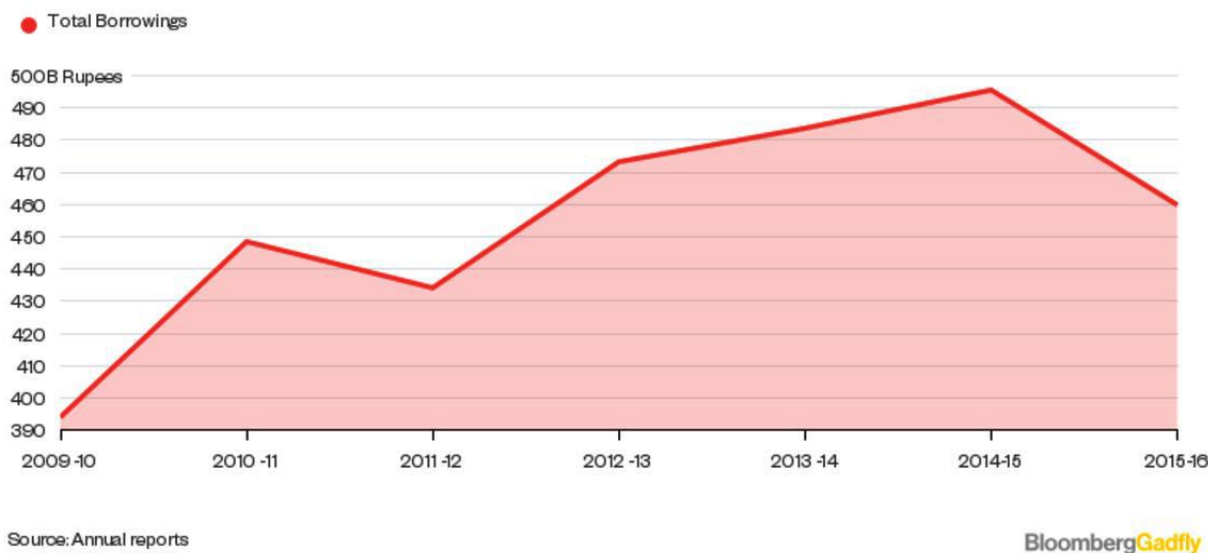
Sources: Lok Sabha Questions; PRS.

Figure-2

## Borrowings of Air India

### Overload

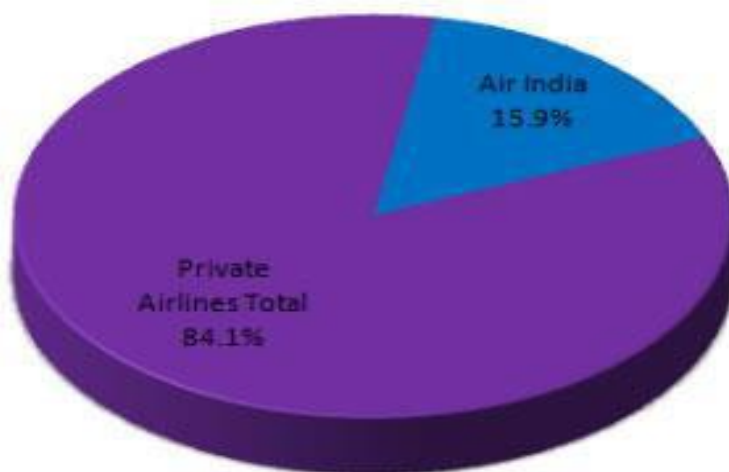
Air India's \$7 billion debt burden will put off potential suitors



In the above graph is the total borrowings of Air India from the year 2009-10 to 2015-16. In 2014-15 it has gone to the maximum clearly indicating that Air India is dependent on its borrowings for its survival. But in the very next year 2015-16 it has declined giving a hope for its growth and progress.

**Figure-3**  
**Market Share of Air India as compare to total other private Airlines**

### Air India Market Share, September 2015



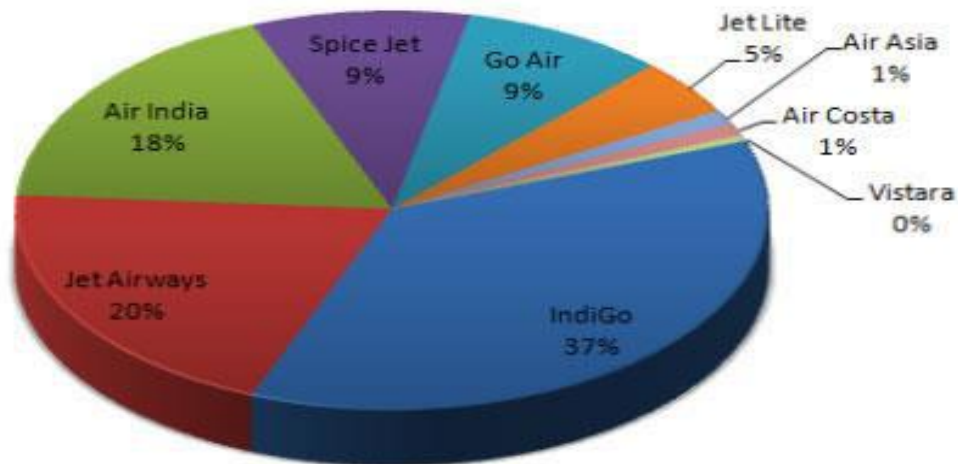
In the above chart, it is clear that in 2015, the market share of Air India was only 15.9% as compared to the total market share of other Private Airlines. Other private Airlines took the benefit of the significant economic loss of Air India from the year 2012 onwards. It influenced the Air India's status in Indian aviation market, placing it in the 3<sup>rd</sup> place behind Jet Airways and Indigo.

No doubt Air India tried to manage its fatal events many time and even suffered from those but in reality it created problem in its competition with other airlines. One of the reason for this is that Air India's flights are very old and need maintenance. Some suggested that they should go for new aircrafts.

**Figure-4**

All Airlines Market Share

All Airlines Market Share, Jan-March 2015



From the above chart it is clear that Air India is in 3<sup>rd</sup> position with 18% market share after Indigo with 37% and Jet Airways with 20% market share. Spice jet and Go Air are in equal share of 9%. All other Airlines are new and still have to go a long way to be in the competition with these big players.

FINANCIAL PERFORMANCE OF AIR INDIA

Table -1

Profit and Loss Account of Air India for the year ended..... (Rs in lakhs)

Particulars	2014-15	2013-14	2012-13	2011-12
<b>I) Revenue</b>				
1. Revenue from operation				
i) Scheduled traffic Services	171,540.00	154,328.10	134,974.40	123,641.80
ii) Non- schedule traffic services	15,857.50	14,577.30	13,621.20	11,897.50
iii) Other Operating revenue	10,619.60	14,804.20	11,682.80	11,213.70
<b>Revenue From Operation</b>	<b>198,017.10</b>	<b>183,709.60</b>	<b>160,278.40</b>	<b>146,753.00</b>
II 2. Other Income (Net)	8,114.50	11,097.80	442.7	385.1
<b>III Total Revenue (I + II)</b>	<b>206,131.60</b>	<b>194,807.40</b>	<b>160,721.10</b>	<b>147,138.10</b>
<b>IV Expenses</b>				
1. Aircraft Fuel & Oil	84,491.40	94,407.10	83,629.60	85,116.70
2. Other Operating Expenses	80,791.80	63,303.20	48,873.40	43,191.60
3. Employee Benefit Expenses	24,666.40	31,521.90	32,547.30	35,666.50
4. Finance Cost	40,282.80	40,713.40	38,689.60	38,860.70
5. Depreciation and Amortisation expense	19,207.40	18,955.70	17,003.70	15,968.30
6. Other expenses	14,493.40	16,333.70	15,471.40	14,557.30
7. Prior Period Adjustments (Net)	728.6	-1,033.10	824.5	1,254.20
<b>Total Expenses</b>	<b>264,661.80</b>	<b>264,201.90</b>	<b>237,039.50</b>	<b>234,615.30</b>
V (Loss) before exceptional and extraordinary items and tax( III-IV)	-58,530.20	-69,394.50	-76,318.40	-87,477.20
VI Exceptional items	-528.2	-464.6	11,199.00	9,224.10
VII (Loss) before extraordinary items and tax (V+VI)	-59,058.40	-68,929.90	-65,119.40	-78,253.10
VIII Extra ordinary Items (Net)	459.3	6,133.90	10,217.80	2,655.70
IX (Loss) before tax (VII+VIII)	-58,599.10	-62,796.00	-54,901.60	-75,597.40
X Tax expenses	0.00	0.00	0.00	0.00
XI (Loss) after tax for the year (IX-X)	<b>-58,599.10</b>	<b>-62,796.00</b>	<b>-54,901.60</b>	<b>-75,597.40</b>
XII Earnings per share of Rs 10 each				
Basic and Diluted	(Rs 3.51)	(Rs 4.80)	(Rs 9.24)	(Rs 30.85)

Source: Annual report of Air India for different years

**Table-2**  
**Balance Sheet of Air India as on 31<sup>st</sup> March (Rs in lakhs)**

	2014-15		2013-14		2012-13		2011-12	
<b>I) Equity and Liabilities</b>								
<b>Share Holders Funds</b>								
a) Share capital	171,780.00		143,450.00		93,450.00		33,450.00	
b) Reserves and Surplus	-373,856.70	-202,076.70	-319,915.90	-176,465.90	-252,839.00	-159,389.00	-197,881.70	-164,431.70
<b>Share application money pending allotment</b>		39470		10,000.00		0		0
<b>Non-Current liabilities</b>								
a) Long- term borrowings	351,451.00		363,538.10		381,675.40		306,220.50	
b) Other long-term liabilities	653.3		502.5		578.3		581.5	
c) Long-term provisions	11,464.40	363,568.70	14,589.80	378,630.40	15,104.40	397,358.10	13,459.20	320,261.20
<b>Current Liabilities</b>								
a) Short Term borrowings	144,168.50		120,054.70		91,605.10		128,195.10	
b) Trade payables	69,122.60		64,836.50		65,555.70		69,017.30	
c) Other current Liabilities	64,814.10		76,292.60		73,024.50		71,339.60	
d) Short-term provisions	2,573.70	280,678.90	2,695.20	263,879.00	2,169.90	232,355.20	2,334.60	270,886.60
<b>TOTAL</b>		<b>481,640.90</b>		<b>476,043.50</b>		<b>470,324.30</b>		<b>426,716.10</b>
<b>II) Assets</b>								
<b>Non-current Assets</b>								
a) Fixed assets								
i) Tangible Assets	332,548.90		328,954.80		343,962.10		311,739.20	
ii) Intangible Assets	1,750.80		1,616.50		1,936.20		1,142.10	
iii) Capital-work-in progress	12,636.10		3,699.30		3,770.30		8,736.20	
iv) Intangible Assets under development	13.5	346,949.30	13.50	334,284.10	18.70	349,687.30	1,009.60	322,627.10
b) Non-Current Investments		11,892.80		1,342.80		1,342.90		1,343.00
c) Deferred Tax Assets (Net)		28,425.20		28,425.20		28,425.20		28,425.20
d) Long Term Loans and Advances		41,363.70		48,292.30		34,992.90		30,582.60
e) Long term Trade Receivables		22.1		19.2		54.8		144.3
f) Other Non-current assets		11		22.1		510.5		415.6
<b>Current Assets</b>								
a) Inventories	12,255.20		20,916.20		17,572.60		9,072.60	
b) Trade receivables	21,889.50		20,662.80		20,280.40		18,491.30	
c) Cash and bank balances	6,231.10		6,565.60		5,161.30		4,310.10	
d) Short Term loans and advances	4,800.90		4,274.30		2,917.20		3,364.70	
e) Other Current assets	8,800.10	52,976.80	11,238.90	63,657.80	9,379.20	55,310.70	7,939.60	43,178.30
<b>TOTAL</b>		<b>481,640.90</b>		<b>476,043.50</b>		<b>470,324.30</b>		<b>426,716.10</b>

Source: Annual report of Air India for different years

## 6. DISCUSSION:

### 6.1 Privatization of Air India

The financial report of Air India shows a debt of Rs 52,000 crores and has to borrow Rs 2,500 crores every year to survive. This details has made government to think on this side and a committee was set up called NITI Ayog. Following Niti Ayog's proposal and suggestions to make Air India a strong and viable airline Prime Minister Narendra Modi approved the disinvestment proposal and privatization of the national carrier and to sell it to a private player within a year's time. Some officials of Air India are not in favor of this and the General Secretary of the Air India Cabin Crew Association Mr KVJ Rao is in view that 'why the government is trying to privatize the Air India if the airlines had stabilized now'.

In 2012, Manmohan Singh government announced bailout package of Rs 30,000 crores spread over 10 years has helped Air India to improve its financial position and in 2015-16, the airline's operational profit accounted of Rs 105 crores on account of low fuel prices and increased passenger numbers. Government also helped in bringing down various charges, including those related to airport and lending. Due to cheaper and affordable air tickets even the common man has started flying indirectly helping aviation sector to grow. There is a tremendous rise in the passengers' trips in last few years. Aviation minister Mr Jayant Sinha says that, "it is wrong to say that the aviation sector is running into losses, in fact they (airlines) are in profit and it is government's aim to make Air India a 'great global airline' and to make it happen, it needs to be transformed. In his own words "We will have to change the operations, we will have to alter balance sheets, we will have to change the product's quality and we will have to make changes in route network also,"

Air India's national grid is backbone of the government's UDAN scheme for regional connectivity. *But, will the Maharajah be able to keep air fare under control or will privatization have its own set of compulsions?*

## 7. CHALLENGES AHEAD:

Air India, which was incurring loss for the past ten years, has made operating profit of Rs 105 crores in the year 2015-16 (Annual report). The accumulated loss for last many years has overloaded Air India with debt burden due to its huge borrowings. The big question with the authority is how to make it debt free, strong and viable airlines competing in the aviation industry with its other competitors.

As per the decision of the government, the other biggest challenge for the authority is to Restructure Air India before privatizing it. The process of its assets sale is also a big challenge for which they have one year's time period given by the government. Air India has 4 subsidiaries of Air India Express Limited (AIEL), Air India Engineering Services Limited (AIESL), Air India Transport Services Limited (AISTL) and Alliance Air. The estimated valuation of different subsidiary is; Air India Express Limited valuation at 8,000 crore, AIESL at 3,000 crore and AITSL valued at roughly 2,000 crore. It also has a joint venture with AISATS which provides ground handling for domestic airports, with rough estimated worth at 1000 crore.

The government has to restructure Air India (value rich company) in the right manner and give Air India private wings to fly globally with new challenges. The time period for all these changes is 12 months.

"Our government is transparent and it will happen in this case as well, our government is for the people and we are ready to make any changes to make Air India more competitive", said Jayant Sinha, MoS Civil Aviation.

## **8. SUGGESTIONS:**

After going through the case many ideas and suggestions can be developed to improve the condition of Airlines. Following suggestions can also be made while discussing the case:

- Air India made a significant Economic loss in the year 2012 and to make it go Airlines borrowed huge amount for last 3-4 years. As per the data increase in depreciation is the biggest reason for decrease in Net Asset value of the Airlines. Once the depreciation decreases the Net Assets value will go up.
- The reason for Increase in depreciation is directly related to Airlines maintenance cost. As the Airlines uses old airlines they should concentrate to introduce new flights for its operations instead of spending too much money on maintenance of old flights.
- As the competition has increased in the aviation Industry increasing the number of private players Air India has to work in competition with these airlines and for which Air India has to improve in their approach be it related to services, finance or operations.
- To be strong and viable Air India has to improve its financial condition, which is their major drawback. No doubt government is helping them but they have to look for other parameters to increase their profitability.
- Privatization started in India in the year 1992 and we all have experienced due to privatization the services to the customers has increased, increasing the cost at the same time. Good service means increase in costs.

## **9. CONCLUSION:**

This case can be expanded and discussed using different parameters like costs structure, marketing strategies, customer services, customer satisfaction, competencies, etc. In future the case can also be elaborated on the point's impact after privatization, competition level with other private players in the aviation industry, improvement in financial performances, etc.

## **REFERENCES:**

- <http://www.financialexpress.com/india-news/air-india-privatisation-narendra-modi-government-clears-disinvestment/710502/>
- <http://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/government-open-to-privatise-air-india/articleshow/58908767.cms>
- <http://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/privatising-air-india-to-change-the-perception-about-modi-governments-reformist-credentials/articleshow/59030151.cms>
- <http://www.iloveindia.com/airlines-in-india/domestic/air-india.html>
- [www.bangaloreaviation.com/2014/02/air-india-performance.html](http://www.bangaloreaviation.com/2014/02/air-india-performance.html)
- <http://money.rediff.com/companies/air-india-ltd/16600003/ratio>
- [https://www.worldwidejournals.com/paripex/file.php?val=April\\_2015\\_1429013902\\_116.pdf](https://www.worldwidejournals.com/paripex/file.php?val=April_2015_1429013902_116.pdf)