

AIR INDIA CASE STUDY

The case of once-great public sector company which got ruined by government mismanagement, corruption, and union intransigence.

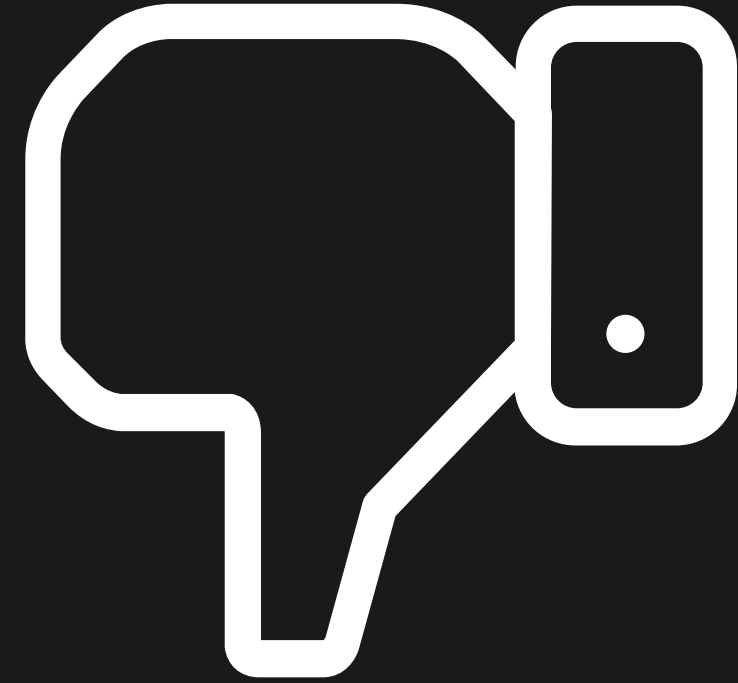


ABOUT AIR INDIA

- Air India, India's national carrier, was established in 1932 as Tata Airlines and was later renamed after India's independence in 1947.
- The airline boasts a fleet of over 100 aircraft, serving 100+ global destinations from its primary hub in Mumbai.
- As a member of the Star Alliance, it offers various cabin classes, with renowned luxury in Maharajah Business Class and First Class.
- Known for attentive customer service, Air India remains a popular choice for travelers.
- Despite a historic legacy, it faced challenges, including mismanagement and financial losses. In 2021, Tata Group acquired Air India and initiated reforms, leading to improved efficiency, cost-cutting measures, and profitability.



WHY AIR INDIA FAILED?



HIGH COSTS:

Air India has consistently been one of the most expensive airlines in the world. This is due to a number of factors, including its large fleet of older aircraft, high labor costs, and inefficient operations.

POOR SERVICE

Air India has a reputation for poor service. This is due to a number of factors, including its outdated fleet, untrained staff, and lack of customer focus.

WHY AIR INDIA FAILED?

- **LACK OF INNOVATION:**

Air India has been slow to innovate. This has led to it falling behind its competitors in terms of product offerings, pricing, and customer experience.

- **POLITICAL INTERFERENCE:**

Air India has been subject to a great deal of political interference over the years. This has made it difficult for the airline to operate efficiently and make sound business decisions.

As a result of these factors, Air India has lost market share to its competitors and has struggled to make a profit. In 2022, the airline reported a loss of ₹7,053 crore.



- **THE AIRLINE WAS MERGED WITH INDIAN AIRLINES.**

The move was aimed at increasing the synergy. However, despite the numerous efforts to jump out of losses, the airline only fell deeper and deeper into it. Equity of 48,212 crores was also introduced to deal with the losses.

- **AIR INDIA INVOLVED IN AN ACQUISITION**

Air India involved in an acquisition spree in the early years. Nearly 111 aircraft were brought for a sum of 70,000 Crore. The government was planning to fuel the acquisition by way of debts, which will be then met by the revenue earned. But things happened the other way around.

INCREASING FUEL COSTS

While all this is on one side the increasing fuel costs started thinning the profit margin. Employee expenses, insurance, and retirement also contributed to the already increasing costs. Currently, the debit column of Air India holds \$7.5 billion in its account.



COVID-19'S IMPACT OF AIR INDIA

It also caused a major impact on Air India's disinvestment plan. The Maharaja sustained a \$500-600 million loss this quarter.

However, in the current scenario, no one will be coming forward to buy Air India. Because they are having a hard time dealing with the huge loss.



TATA'S ACQUISITION ON AIR INDIA

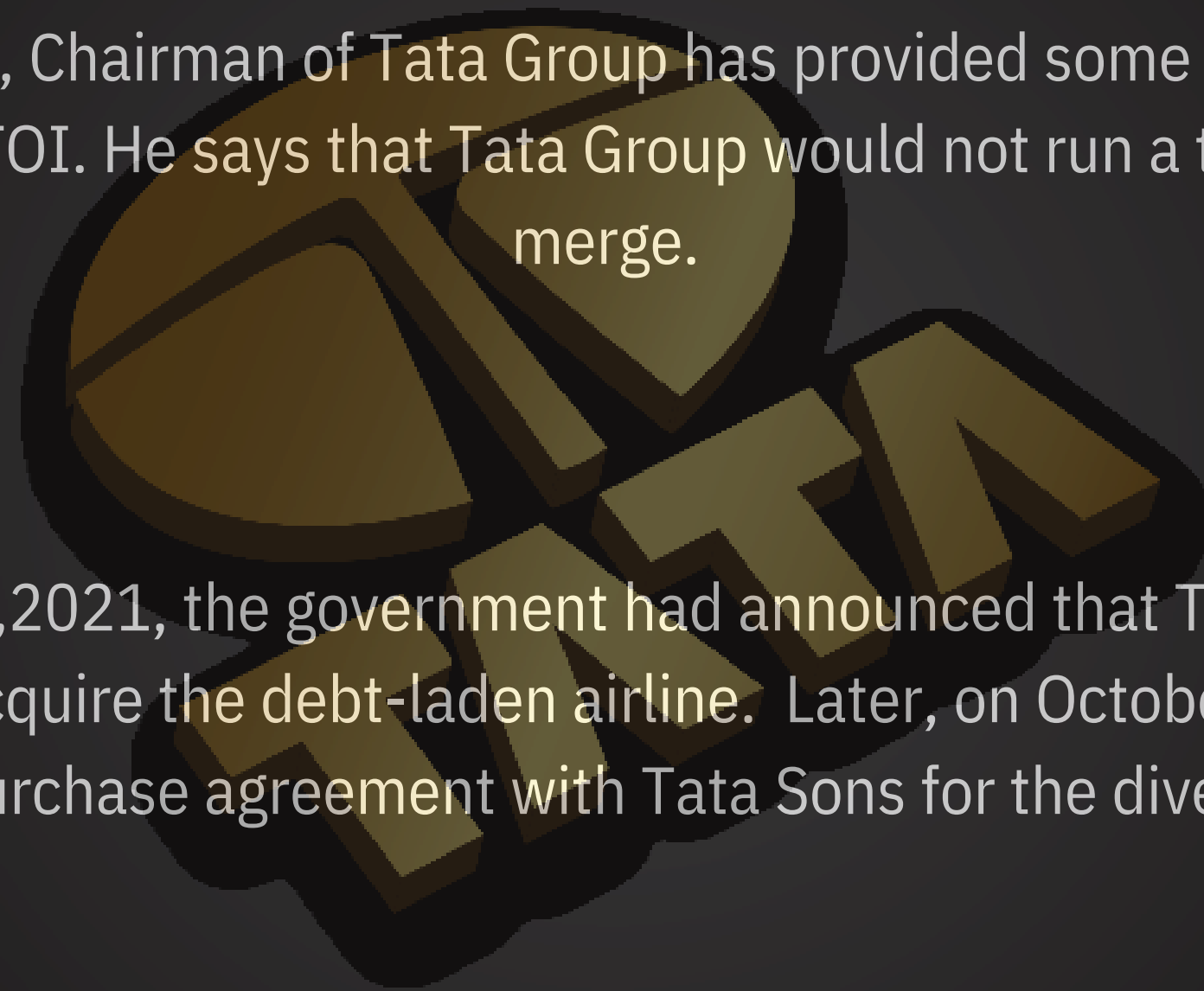
Government owned airline carrier Air India is currently in doldrums and government is trying hard to sell it off. In the recent budget Finance Minister Nirmala Sitharaman announced that government will sell off 100% stakes of Air India. Post this, it was being expected that companies that were interested in buying the government owned airline, will now participate more actively to finalize the deal.

Tata Group operates Air Asia India with its Malaysian ally that holds 49% stake in the company. Besides this, the Tatas also operate 'Vistara' which is a joint venture between Tata Group and Singapore Airlines. In the full service space (economy as well as business class) Tata Group might attain a monopoly if this deal goes through!

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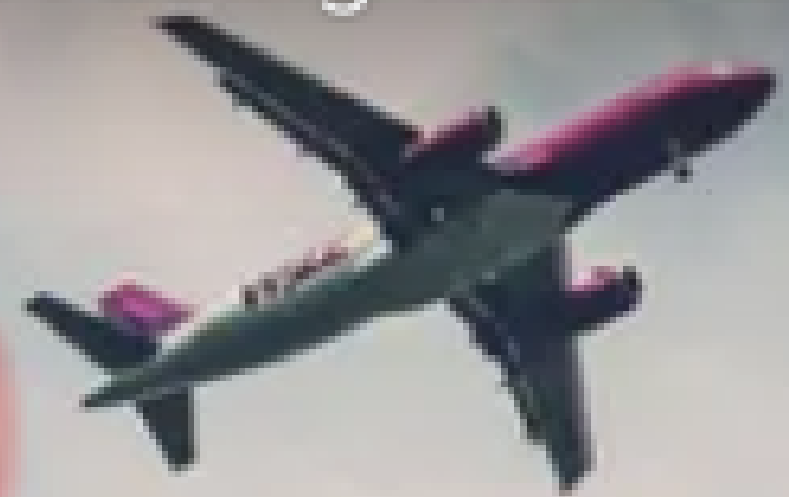
N Chandrasekaran, Chairman of Tata Group has provided some clarity on this in his statement given to TOI. He says that Tata Group would not run a third airline until they merge.

Earlier on October 8, 2021, the government had announced that Talace Private Limited had won the bid to acquire the debt-laden airline. Later, on October 25, the government signed the share purchase agreement with Tata Sons for the divestment of Air India.



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WHAT IS TATA DOING WITH AIR INDIA?

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CORPORATE GOVERNANCE THEORIES THAT CAN BE RELATED TO AIR INDIA'S FAILURE

AGENCY THEORY:

Agency theory posits that there is a separation of ownership and control in corporations, and that this can lead to conflicts of interest between shareholders and managers. In the case of Air India, the government was the majority shareholder, but the management was not accountable to the government or to the shareholders. This led to a number of problems, including financial mismanagement and corruption.

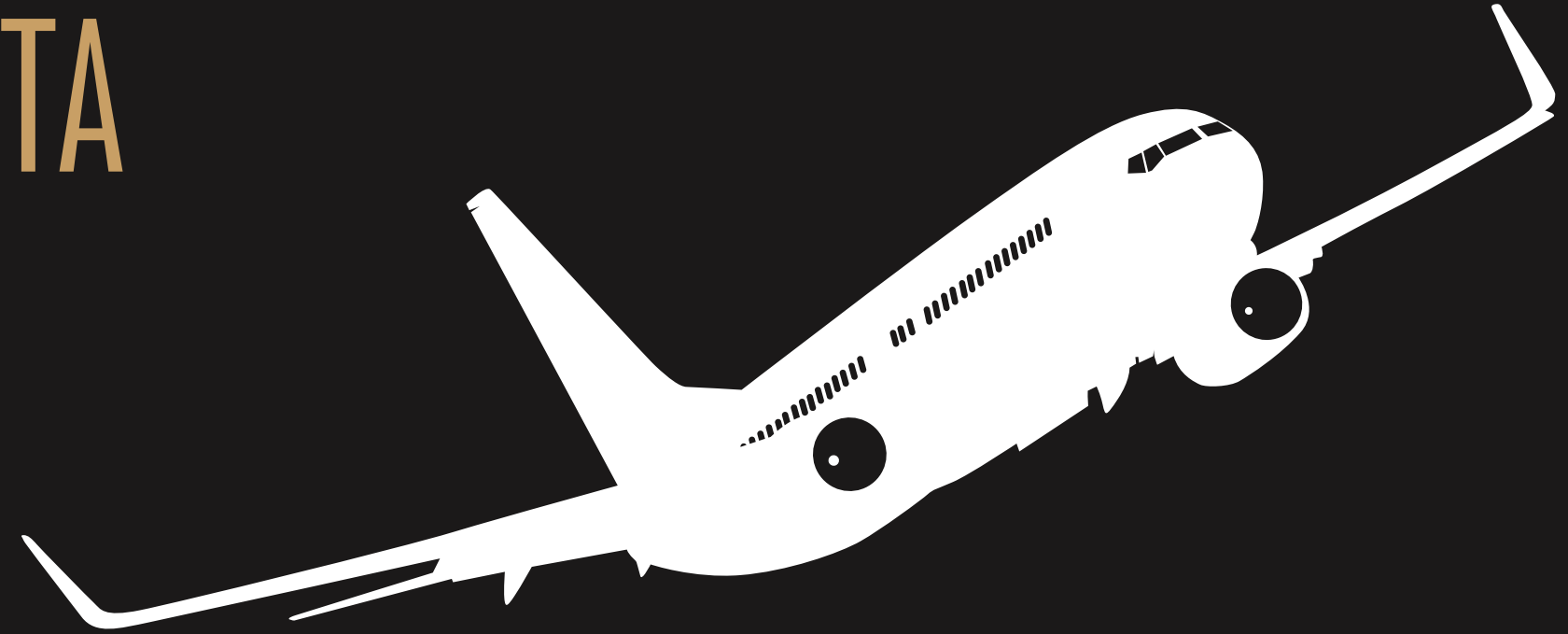
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STEWARDSHIP THEORY:

Stewardship theory argues that managers are more likely to act in the best interests of the company if they feel a sense of ownership and responsibility. In the case of Air India, the management was not given the autonomy to make decisions in the best interests of the company. This was due to political interference and the lack of independent oversight.



CORPORATE GOVERNANCE WHICH TATA IS USING TO REVIVE AIR INDIA.



- Independent board of directors: The Tata Group has appointed an independent board of directors to oversee the management of Air India. This will help to ensure that the airline is making sound business decisions and that it is accountable to its stakeholders.
- Strong internal controls: The Tata Group is strengthening Air India's internal controls to prevent financial mismanagement and corruption.
- Culture of accountability: The Tata Group is implementing a culture of accountability at Air India, where managers are held accountable for their performance.



CONCLUSION

Overall, the Tata Group's acquisition of Air India is a positive development. The company has a strong track record of running successful businesses, and it is committed to corporate governance and stakeholder engagement. These factors give hope that the Tata Group can turn Air India around and make it a viable competitor in the global airline industry.





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AIR INDIA

THANK YOU

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