IIT Guwahati
Finance and Economics Club

MnAnalyse

"The Air India-Vistara Merger: A Strategic Analysis & Valuation"

"A Premier Merger and Acquisition Case Analysis"

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Agenda

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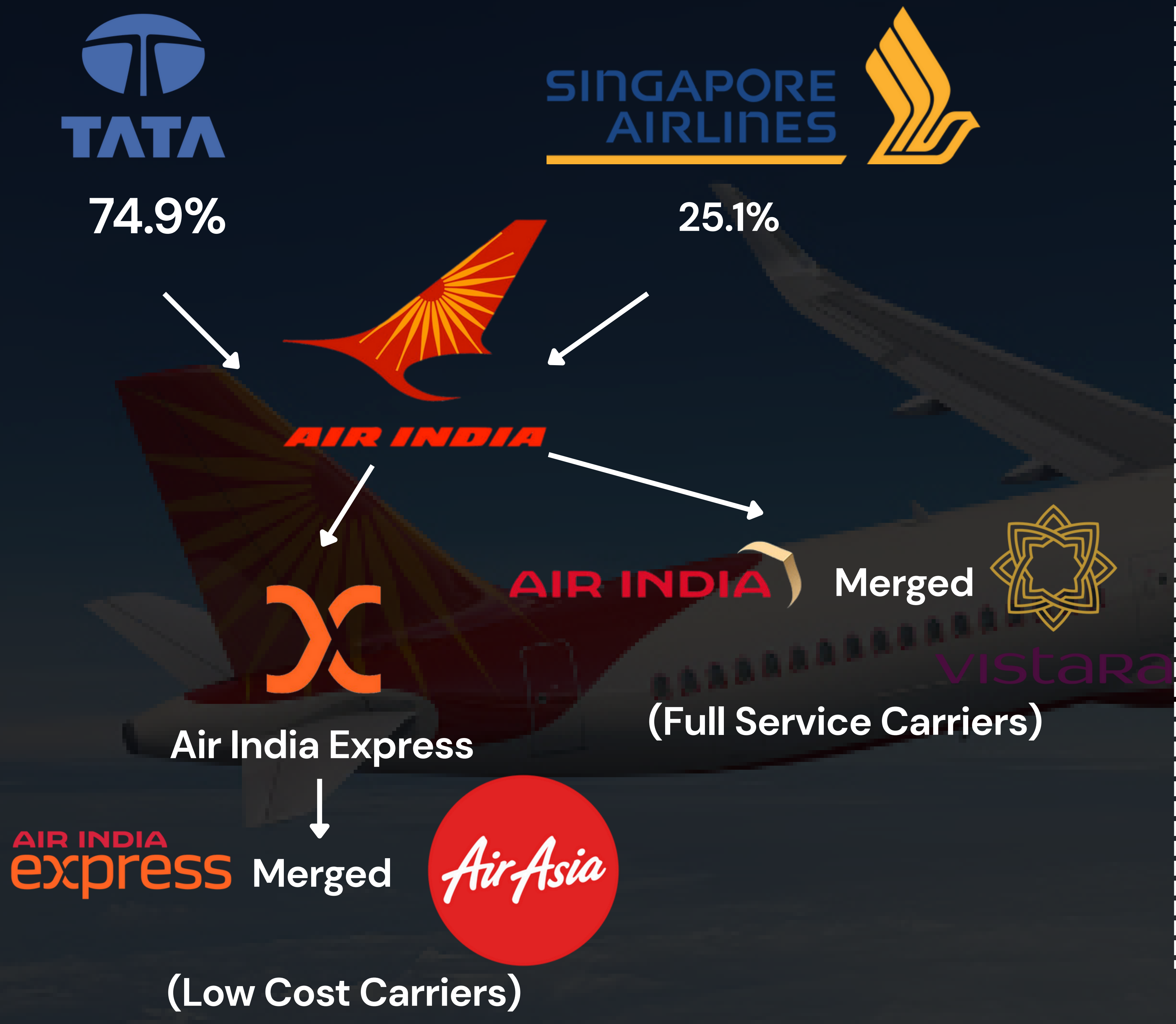
A brief Pre-Merger Lookout

	AIR INDIA	vistara (A TATA SIA JV)
Ownership	Tata Sons (100%)	Tata Sons (51%), Singapore Airlines (49%)
Founded	1932 (flag carrier)	2013 (premium FSC)
Fleet	~137 aircraft	~70 aircraft
Network	90+ domestic & international destinations	50 destinations (32 domestic, 18 international)
Service	Legacy full-service, global reach	Premium full service carrier
Employees	~25,000+	~5,500+
Brand Positioning	National flag carrier, inconsistent service	Premium service, high on-time performance

Internals and Investments



Cash Investments:

- Tata Sons: 3224.82 Cr
- SIA: 6331.18 Cr

Timeline:

- Jan'22 : Tata acquires Air India from GOI
- Oct'24 : Merger of LCCs(AIX and Air India Exp)
- Nov'24 : Merger of FSCs(Vistara & Air India)

Fleet and Numbers:

- 300 Air Craft : LCCs + FSCs (AirBus, Boeing)
- Order of 470 New Aircraft (part of Vihaan.AI)
- 55 domestic , 48 Interntational destinations
- 8300 weekly flights

M&A Cycle: Why-When-How

Strategic Planning

- Tata Group's Vihaan.AI → Consolidate 4 Aviation Brands → "Former Glory"
- Creating full service, World class Airlines & Strong Unified LCC

Why Vistara?

- Vistara → Tata Sons(51%) + SIA(49%) → Natural choice for Full Service merger
- Modern, Well-regarded, Premium fleet
- Air India could leverage Vistara's services

Diligence And Approvals

- CCI → Ensures Merger won't harm market competition
- NCLT* & DGCA* provides clearance

Valuation & Integration

- **25**.1% stake to SIA for : Assets, Resources, Technology, 49% equity in Vistara, $7.6 B Cash Investment
- 140 IT systems, 4000 vendor contacts
- SIA added 11 indian, 40 int. cities to Air India Codeshare Network
- "Club Vistara" migrated to "Maharaja Club" → Seamless Transition of 4.5 million passengers

NCLT* – National Company Law Tribunal
DGCA*– Directorate General of Civil Aviation

Timeline

Nov 2022

Merger Announcement

Jun-Sep 2023

NCLT* & DGCA* provides clearance

CCI* scrutiny: conditional approval

May 2024

Roadmap & Staff Planning

Oct 2024

Integration of 140+ systems, 270K bookings, 4.5M loyalty members

12 Nov 2024

Formal merger completion

Early 2025

Operational integration continues

Mid 2025

Stabilization & Scale-up

NCLT* – National Company Law Tribunal **DPCA*–** Directorate General of Civil Aviation **CCI*–** Competitive Commission of India

Merger Rationale

Building World Class Airline with an Indian heart

- **Market Leadership:** 2nd largest domestic airline(~27% share) and largest International carrier. **Vistara's Premium Service & Reliability + Air India's Legacy & broader network**
- **Scale and Network Consolidation:** Eliminating Route Overlap→ Maximizing Hub Efficiency (Delhi, Mumbai)
- **Cost Synergies:** Fleet Harmonization → Significant MRO (Maintenance, Repair, and Overhaul) savings
- **Revenue Synergies:** Premium Vistara brand → high value customers → Increased Yields

- **Global Competitiveness:** Strengthen position against Middle Eastern Giants(Emirates, Qatar, Etihad) → International Explansion of our "Flag Bearing fleet"
- **Transformation Drive:** Merger aligns with Vihaan.AI* → 5year plan Fleet renewal → Service excellence → Modernization of all operations → Achieving sustained profitability.
- **Strategic Partnership:** SIA* 25.1% stake in merged entity brings: World Class Operational Practices → Fresh Investments → Fleet management → Excellence

*LCC- Low Cost Carriers(Air India Express, Air Asia India)
*FSC- Full Service Carrier (Air India, Vistara)

*Vihaan.AI- Air India Group's ambitious 5-year transformation plan
*SIA- Singapore Airlines-25.1% stake in Air India Group Post merger.

Post-Merger Positioning

A Two-Brand Powerhouse

- Our National Flag Carrier with Vistara's Premium Standards
- Air India Express(IX) → Single, Integrated budget Airline

Market Positiion(LCC+FSC):

- Combined fleet of 300 aircraft
- 470 new Aircrafts : Airbus A320s and Boeing 787s
- 55 domestic and 48 international destinations
- 312 routes and 8,300 flights per week
- Staff strength stands at over 30,000
- Projected 1800Cr in Cost Savings* by FY27

Dual Brand Strategy

Consolidation of the low-cost carriers (LCCs), AirAsia India and Air India Express → single LCC entity

Cost Savings * via Procurement efficiencies, maintenance savings from a harmonized fleet, and reduced overhead

Market Leadership & Global Comp

- Second Largest Domestic Player→ Largest International Airlines
- Strategic Hub of Mumbai and Delhi → Major Gateway for Dom. & Int. travel
- Deepened Alliances with SIA → Crucial

Comparable Companies

Competitive Landscape: Indian Diaspora

Airline	Domestic Share	Positioning	Advantages
IndiGo	63-65%	Market Dominant LCC	Cost Efficiency, Expanding Networks, Fast Growth
Akasa Air	~5%	Emerging Hybrid Carrier	New Fleet, Regional Growth
SpiceJet Red. Hot. Spicy.	~2-3%	Niche Cost Sensitive Players	Price Competitive, Regional focus
Others	<2%	Specialized Niche Carriers	Specialized Routes

Competitive Landscape: Global Markets

Airline	Global Position	Key Advantages	Competitive Threat
Emirates	Global full-service powerhouse	Expansive network, premium brand, Dubai hub	Long-haul routes, brand reputation
QATAR AIRWAYS القطرية	Premium full-service carrier	Award-winning service, Doha hub, modern fleet	High-yield passengers, seamless connections
SINGAPORE AIRLINES	Asia's premier FSC (Our Partner)	Service excellence, young fleet, strong partnership	Asia-Pacific routes, premium segment
TURKISH AIRLINES	Fastest growing network	Strategic Istanbul hub, competitive fares	Europe-North America connections

SWOT Analysis

STRENGTHS

- **Market Leadership** – Largest Indian international carrier; #2 domestically
- **Operational Synergies** – Optimized routes; Harmonized fleet **(MRO costs reduction)**
- **Product Upgrade** – Vistara's premium Full Service product rolled out in larger fleet

WEAKNESSES

- **Operational Fragmentation** - Complexity of aligning 4 distinct airlines (LCCs & FSCs)
- **Service Reliability Shortfalls** - Scaling Vistara's premium services all across
- **Ageing Fleet:** Significant Investment in retrofitting and maintenance (Addition 470 carriers will counter this)

OPPORTUNITIES

- **Growth Potential-** Capitalizing on India's rapidly growing market
- **Cost Synergies-** Estimated ~$300M annual savings (via streamlining operations and procurement)
- Delhi, Mumbai as Global Aviation Hubs → High No. of International Transfer Passengers

THREATS

- **Competitive Market Risks-** A near-duopoly with IndiGo (Cost Leadership, Market dominance)
- **Execution Risk-** Grounding risks, IT & HR integrations, Talent attrition
- **Externalities-** Volatile oil prices, Currency fluctuations, Global slowdowns → Can impact **Breakeven Timeline**

Revenue Synergy

Revenue Streams

Network & Market Expansion | 35% of Total Revenue Synergies

- Enhanced Route Connectivity : 8-12%
- Slot Optimization : 15-20%
- Market Penetration : 5-8%

Premium Service Monetization | 30% of Total Revenue Synergies

- Brand Halo Effect: 10-15%
- Yield Enhancement: 12-18%
- Service Standardization: 6-9%

Corporate & Partnership | 25% of Total Revenue Synergies

- Corporate Contracts: 12%
- Code-Sharing Enhancement: 4.5%
- Alliance Benefits: 8-12%

Customer & Loyalty Optimization | 10%

- Loyalty Program Unification: 15-40%
- Cross-Selling Success: 10-30%
- Ancillary Services: 5-8%

5-Year Synergy Timeline

Years 1–2: Quick integration wins (25% → 45%)

- Loyalty program migration
- Corporate account integration
- Initial premium service rollout across **60%** of fleet

Years 3–4: Strategic implementation (70% → 90%)

- Network optimization & advanced yield management
- Full premium service standardization
- Corporate partnership expansion

Year 5: Maximum realization (100%)

- Complete brand transformation & market repositioning
- Mature partnership ecosystem

Industry Validation Benchmarks

Success Rate: **25%** of airline mergers achieve **80%+** of projected revenue synergies

Timeline Reality: European airline mergers typically realize **70%** of synergies by Year 3

Revenue Focus: Asian mergers → higher revenue synergy potential **(15–25%)**

Cost Synergy

Fleet Harmonization

- Negotiate bulk maintenance contracts & Engine Overhauls
- Reduce Sparepart SKUs* ~ over 25–30%

IT Systems Integration

- Integrate reservation, Crew scheduling, Maintenance, and loyalty systems
- Cut vendor overlap by 20–25% and lower license costs

Supply Chain Optimization

- Unify procurement → Fuel, Catering, Uniforms, Seats, IFE* hardware
- Leverage bulk contracts, hedging, and central vendor management
- Achieve 5–8% cost savings

Crew Optimization

- Cross-train pilots and crew
- Integrated scheduling → Cut overtime and positioning flights → Productivity increased 5-7%

IFE*– In Flight Entertainment
SKU*– Stock Keeping Unit

Break-Even Timeline

ROI Validation

- 3-Year Cumulative Synergies: ₹1,000 Cr
- Net ROI by FY30: -200% negative returns eliminated
- NPV of Investment: ₹2,340 Cr (at 12.7% WACC)

Metric	Timeline	Value
Integration Costs	FY26-27	2013 (premium FSC)
Annual Synergies (Run-rate)	FY28+	~70 aircraft
Payback Period	2.4 Years	From FY28
Break-Even Point	Q2 FY29	Cumulative positive

Cash Flow Timeline

- FY26: -₹600 Cr (Integration Phase 1)
- FY27: -₹600 Cr (Integration Phase 2)
- FY28: +₹125 Cr (25% synergy realization)
- FY29: +₹375 Cr (75% synergy realization)
- FY30: +₹500 Cr (Full run-rate achieved)

DCF Methodology & Rationals

Forecast Free Cash Flows → Determine Discount Rate → Calculate Terminal Value → Calculate Present Value → Derive Equity Value

Metric	FY2026–2030 (High Growth Phase)	FY2031–2035 (Stable Phase)	Rationale
Revenue Growth (CAGR)	18% tapering to 12%	8%	Initial market share gains network expansion → **Tapering to mature industry growth rate**
EBIT Margin	-5% improving to +4%	Improving to a terminal rate of 7%	Path to profitability driven by economies of scale → **Synergy realization**
Cost Synergies	₹500 Cr annually, phased in over FY26–28	Fully Realized	Conservative estimates of network, procurement, and overhead optimization.
Capital Expenditures	Elevated levels (Avg. ₹25,000 Cr/yr)	Normalized to ~6–7% of Revenue	Reflects the confirmed order → 470 new aircrafts → fleet renewal and expansion.
Tax Rate	0% during loss-making years, then 25%	25%	Assumes utilization of Net Operating Losses (NOLs) before moving to the standard corporate tax rate.

WACC

12.7%

Implied WACC

Component	Value	Key Assumptions
Cost of Equity (K_e)	15.55%	Risk-Free Rate: 6.4%, ERP: 7.04% (based on Indian market) Beta (β): 1.30 (Proxy based on comparable airline companies)
Post-Tax Cost of Debt (K_d)	6.0%	Pre-Tax Cost: 8.0%, Tax Rate: 25%
Capital Structure (E/D)	70% / 30%	Target based on industry norms

Projected UFCF

Fiscal Year (FY)	2025 (E)	2026	2027	2028	2029	2030	2031	2032	2033	2034
Revenue	82,000	96,760	112,725	129,634	147,135	164,791	177,974	192,212	207,589	224,196
Revenue Growth %		18.00%	16.50%	15.00%	13.50%	12.00%	8.00%	8.00%	8.00%	8.00%
EBIT	-10,500	-4,838	-3,382	-1,296	2,207	6,592	8,899	11,148	13,286	15,245
EBIT Margin %	-12.80%	-5.00%	-3.00%	-1.00%	1.50%	4.00%	5.00%	5.80%	6.40%	6.80%
EBIT (1-Tax)	-10,500	-4,838	-3,382	-1,296	1,655	4,944	6,674	8,361	9,964	11,434
+ D&A	7,000	8,400	9,800	11,200	12,500	13,500	14,000	15,000	16,000	17,000
- Capital Expenditures	-30,000	-35,000	-38,000	-32,000	-28,000	-22,000	-18,000	-15,000	-15,000	-16,000
- Δ in Working Capital	-1,260	-2,214	-2,395	-2,536	-2,625	-2,649	-1,977	-2,136	-2,307	-2,491
Unlevered FCF	-34,760	-33,652	-33,977	-24,632	-16,470	-6,205	697	6,225	8,657	9,943

Implied value - Gordon Growth Model

Component	Calculation	Present Value
PV of Forecast FCF (FY26–34)	Sum of discounted UFCF from the 9-year forecast period	(₹66,451 Cr)
Terminal Value (at FY34)	₹9,943 Cr×(1+5.0%)/(12.7%-5.0%) = ₹1,35,530 Cr	---
PV of Terminal Value	₹1,35,530 Cr/(1+12.7%)^9	₹45,860 Cr
Enterprise Value (EV)	PV of FCF + PV of Terminal Value	(₹20,591 Cr)
Less: Net Debt	Approx Current Net Debt	(₹60,000 Cr)
Implied Equity Value	Enterprise Value - Net Debt	(₹80,591 Cr)

Implied Equity Value

(₹80,591 Cr)

Sensitivity Analysis Table

Sensitivity Analysis	Terminal Growth Rate			
WACC ↓	1.50%	2.00%	2.50%	3.00%
11.70%	₹92,340 Cr	₹98,760 Cr	₹106,420 Cr	₹115,680 Cr
12.70%	₹74,680 Cr	₹80,591 Cr	₹87,340 Cr	₹95,210 Cr
13.70%	₹61,450 Cr	₹66,780 Cr	₹72,890 Cr	₹79,940 Cr

Terminal Value Assumptions:

- Growth Rate: 5.0% (Below India GDP growth of 6-7%)
- EBITDA Margin: 7% (Industry mature state)
- Capex: Normalized to 6-7% of revenue (Replacement only)

Integration Risks

Cultural & Workforce

- Pay gaps, pilot seniority disputes
- Low morale from scheduling strain

Operational Reliability

- Service consistency across network
- Ensuring punctuality rebounds

Maintenance & Safety

- Aging fleet, MRO consolidation
- Safety compliance risk

IT & Systems Integration

- Harmonizing over 140 disparate systems (loyalty, reservations, scheduling) without downtime.

Regulatory & Legal

- Protect traffic rights, meet merger conditions.
- Aligning legal frameworks.

Mitigation Strategy

Cultural & Workforce	Operational Reliability	Maintenance & Safety	IT & Systems Integration	Regulatory & Legal
• Align pay/seniority via workshops • Maintain morale through leadership forums	• Phase service integration (e.g., pilot premium cabin rollout) • Retain Vistara protocols during transition	• Standardize MRO processes safety protocols across fleet • Implement joint crew safety training.	• PMO-led system migration • Schedule transfer of 270k bookings & 4.5M loyalty accounts in advance	• Engage regulators early • Commit to capacity and slot adjustments

Stakeholder Impact Map

Employees:

Pre-Merger State:

- **Air India:** Legacy Culture, Seniority Focus
- **Vistara:** Performance Culture, Premium Service

Post-Merger Impact → Concern Over Cultural Integration

- **Challenges:** Unifying cultures → Cross functional trainings
- **Execution:** Proactive Communication (Townhalls, Newsletters) → Cross-functional teams → “Indian Heart Identity”

Passengers:

Pre-Merger State:

- **Air India:** Loyal to Brand, Critical of Services
- **Vistara:** Premium travelers for high quality service

Post-Merger Impact → High Potential

- **Challenges:** Vistara’s standards across larger fleet
- **Execution:** Fleet modernization → "New Air India Promise" campaign → Unified “Maharaja Club”

Stakeholder Impact Map

Shareholders(Tata, SIA)

Pre-Merger State:

- Air India → owned all 4 airlines. SIA → 25.1% stake in Vistara.

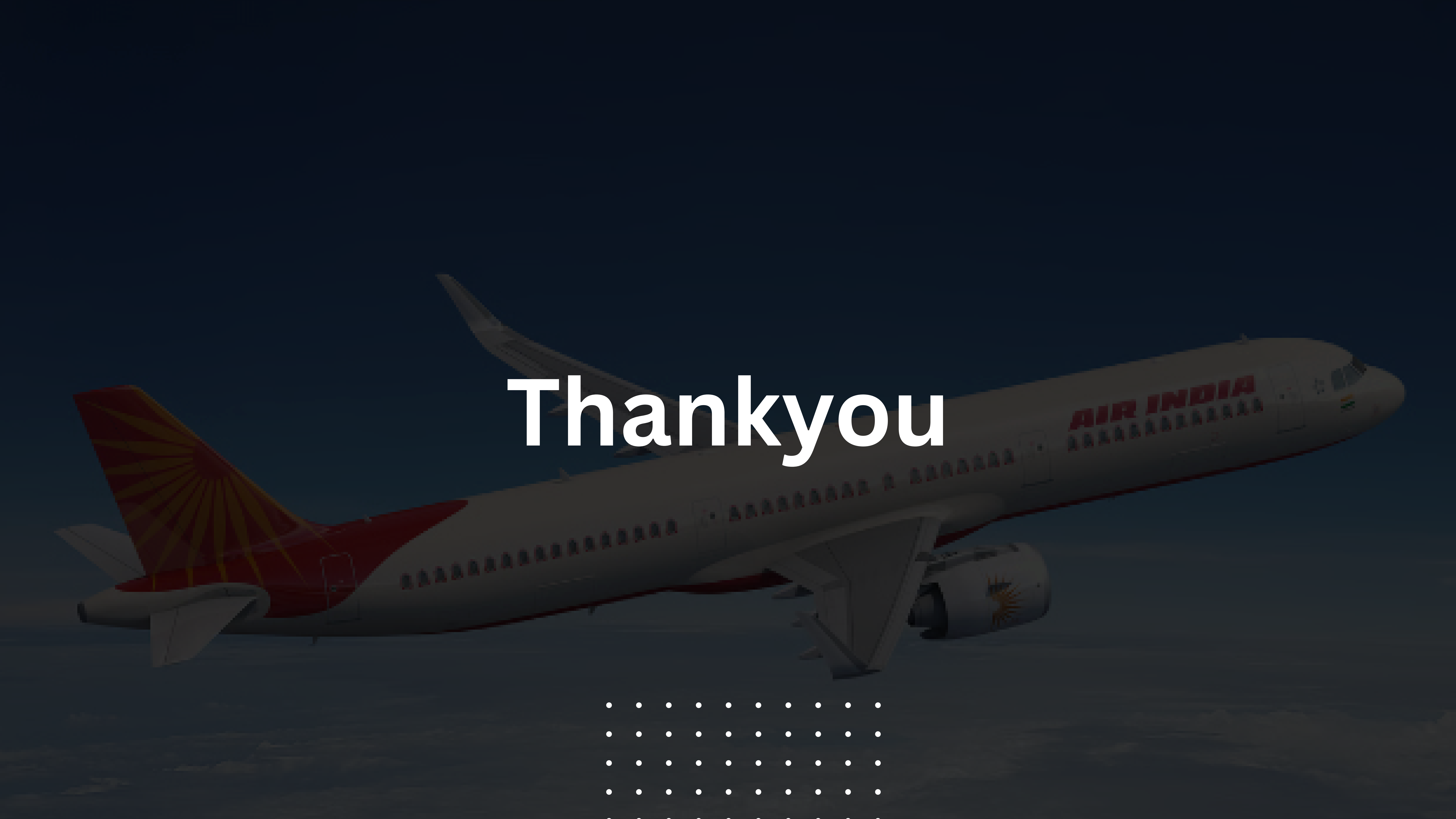
Post-Merger Impact → High Scrutiny on Integration and Synergy realisation

- **Challenges:** Managing Integration costs, Delivering strong ROI
- **Execution:** Joint Steering Committee → KPI driven dashboard → Synergy Realization targets

Regulators:

Pre-Merger State:

- The 4 airlines had separate regulatory oversight. Complex but manageable
- **Post-Merger Impact** → Intense Scrutiny and higher level of oversight by DGCA
- **Challenges: Need too navigate** → Competition Act(2002) & Company Act(2013)
- **Execution:** Transparent update, Joint planning → Negotiate for expanded International rights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