Chapter 1: Introduction

1.1 Organisational Structure of Air India Limited

Ministry of Civil Aviation (MoCA) is the administrative Ministry of Air India Limited (AIL). The Board of Directors of AIL consists of Chairman and Managing Director (CMD), three functional Directors, Additional Secretary and Joint Secretary-cum-Financial Advisor, representing the Ministry of Civil Aviation. AIL is divided functionally with each function headed by a Director, who reports to the CMD of AIL. Geographically Regional Executive Director reports directly to the CMD.

AIL owns the following subsidiaries

i. **Air India Air Transport Services Limited (AIATSL):** The Company provides ground handling services (cargo, passenger, baggage) at various airports in India to AIL and other airlines.

ii. **Air India Charters Limited (AICL):** AICL operates a low cost airline "Air India Express", launched in April 2005, operating services from India to primarily Gulf and Southeast Asia.

iii. **Air India Engineering Services Limited (AIESL):** The Company handles Maintenance Repairs and Overhaul (MRO) of Airbus and Boeing aircraft of AIL and other airline.

iv. **Airline Allied Services Limited (AASL):** AASL incorporated in 1983, provides support services such as air transport services and manages airplane purchase, lease and sale transactions. As a subsidiary of Air India, AASL also provides air transport services under the brand name "Alliance Air".

v. **Hotel Corporation of India Limited (HCI):** HCI is wholly owned by Air India Limited and was incorporated on 8 July 1971 for providing in-flight catering services to the national carrier and for operating a chain of hotels. HCI operates two hotels under the brand name of "Centaur Hotels" in Delhi and Srinagar.

1.2 Background of the Turnaround Plan

Air India Limited ("Air India" or "the Company"), wholly owned by the Government of India ("GoI"/"the Sponsor"), is engaged in air transport operations, under the brand "Air India" in domestic and international sectors. AIL is the national flag carrier and operates a fleet including Airbus and Boeing, serving destinations in Asia, Europe, Australia and North America apart from domestic destinations.

The difficulties of aviation industry in recent years, coupled with operational problems of the Company strained the financial position of Air India Limited. The high debt burden of the Company further reduced its liquidity and the Company lost significant market share in recent years.

The Company registered a cumulative negative EBITDA[1] of ₹9866 crore and incurred cumulative net losses of ₹20192 crore (approximately), between Financial Year (FY) 2007-08 and Financial Year 2010-11. The Company resorted to high cost working capital borrowings in order to continue its operations. The working capital borrowings of AIL increased from ₹16328 crore as on 31 March 2009 to ₹22468 crore as on 30 September 2011. In addition, the Company also availed long term borrowings to finance acquisition of aircraft. The combined increase in borrowings led to an outstanding debt of around ₹43112 crore as on 30 September 2011.

1.3 Turnaround Plan

The Company formulated (July 2010) a comprehensive Turnaround Plan (TAP) along with a Financial Restructuring Plan (FRP) to improve its operations and its financial position. The operational turnaround envisaged improvements in its business operations, network planning, integration of Information Technology System (IT) and management of Human Resources (HR). It also included cost reduction measures like route rationalisation. The assumptions made in TAP had been vetted by an independent consultant, M/s Deloitte Touché Tohmatsu India Pvt. Ltd. (Deloitte). The Financial Restructuring Plan included debt realignment and induction of equity by GoI. A Group of Officers (GoO) appointed by the Group of Ministers (GoM) examined (October 2011) the provisions of TAP before it was approved (April 2012) by the Government.

TAP encapsulated tangible goals with respect to passenger traffic, load factors, on-time performance and customer service. The proposed business strategy of the Company was to focus on the following key areas:

- Optimisation of fleet deployment
- Hiving off of allied business such as MRO[2] and GH[3]
- Integration of IT[4] platforms
- Improvement of Operational efficiency
- Monetisation of assets

Implementation of the above business strategies was key to successful turnaround of the Company.

1. 4 Financial Restructuring Plan (FRP)

The low earning capacity and accumulated losses of the Company affected its capacity to serve high level of debt. Accordingly, a comprehensive FRP, to provide relief to the Company from its debt servicing obligations while providing necessary time to improve its operational efficiency and to implement TAP was proposed. Air India appointed M/s SBI

[1] *EBITDA –Earnings before Interest, Tax, Depreciation and Amortisation.*
[2] *MRO –Maintenance, Repairs and Overhaul*
[3] *GH-Ground Handling*
[4] *IT-Information Technology*

Capital Markets Limited ("SBICAP") as its Financial Advisor to advise on the Financial Restructuring Plan.

The FRP was formulated based on the assumptions made in the Turnaround Plan. The FRP, *inter-alia*, intended to convert part of the existing Working Capital (WC) loan into Short term loan which would be paid through proceeds from issue of Non-convertible debentures. A part of the working capital was to be converted into Long Term Loan with interest on the long term loans also being converted to a Funded Interest Term Loan. In addition, substantial equity infusion from GoI was envisaged.


AIR INDIA