Chapter 12: Conclusion and recommendations

Conclusion

The Turnaround Plan (TAP) and Financial Restructuring Plan (FRP) for AIL had been approved by the Government in April 2012 to improve the deteriorating financial position of the Company. The plan laid down operational milestones for its revival. During the period from 2012 to 2016, the operational revenues earned by the Company increased though not to the levels envisaged in the TAP-FRP. The costs have reduced particularly in 2014-15 and 2015-16 with the sharp fall in crude prices and transfer of staff to the two subsidiaries (MRO and GH). It was noticed that the airline had rationalised a number of international and domestic services and with reduction in variable costs, the variable costs had been recovered in 2015-16 in most routes (93 *percent* international and 80 *percent* domestic). Even as the efforts made by the Company are acknowledged, there were significant concerns on its future financial status, aircraft availability and deployment, HR policies, IT integration efforts which in turn had an impact on the overall operational performance of the airline.

The FRP intended, inter alia, restructuring the accumulated working capital loans of ₹22157 crore (as on 31 March 2011). It was assumed that with the implementation of TAP, additional revenue would be generated which coupled with rationalisation of costs, would limit the cash credit requirements of AIL at ₹3645.87 crore in future. Audit however noticed that short term loans of the Company at ₹14550.88 crore as on 31 March 2016, recorded an increase of 0.93 *percent* in 2015-16, over the loan as on 31 March 2015, primarily on account of lower revenue generation by the Company. The high volume of short term loans had largely eroded the benefits of the financial restructuring carried out under FRP.

AIL failed to earn the targeted annual revenue of ₹500 crore per annum from monetisation of assets, with assets valued at ₹64.06 crore only being monetised. This resulted in a resource gap of ₹1935.94 crore during the period from 2011-12 to 2015-16. Failure in monetisation was on account of selection of assets, monetisation of which was not feasible owing to non-availability of title deeds or conditions imposed by the terms of lease. Efforts for monetisation during the period of audit were inadequate and met with little or no success.

While reviewing the operations of AIL during the period from 2010-11 to 2015-16, Audit noticed that the airline had over-provisioned wide body aircraft while it had an acute shortage of narrow body aircraft. Even though the Company was aware of the shortage and had initiated the process of leasing A-320 aircraft as early as July 2010, only five aircraft could be inducted by 31 March 2015 against the requirement of nineteen. Even the available fleet could not be efficiently deployed. Audit noticed that aircraft remained grounded for prolonged periods due to non-availability of components, spares, serviceable engines which led to cannibalisation and more protracted grounding periods. While the aircraft remained grounded, the airline paid substantial amounts for their lease rent (for leased aircraft) or finance cost (for owned aircraft). Not only was the deployment of aircraft low, their utilisation was also poor. The shortfall in achievement of ASKM targets given in TAP by narrow body aircraft ranged between 8 *percent* to 29 *percent* and that by wide body aircraft ranged between 0.29 *percent* to 43.74 *percent* during the period 2010-11 to 2014-15, which further increased to 35 *percent* in respect of narrow body and 30.88 *percent* in wide body during 2015-16. Poor utilisation of the limited fleet as compared to optimal utilisation envisaged in the TAP, resulted in the Company losing an opportunity to earn more revenue and contribution to fixed cost.

At the strategic level, the Company did not implement the low cost carrier strategy envisioned in the TAP and failed to operationalise intended hubs at Mumbai and Chennai. Route restructuring was carried out with the objective of recovery of variable cost primarily as against the total cost. It was noticed that though the airline managed to recover its variable cost, there was considerable shortfall *vis-a-vis* total cost. This affected the profitability of operation. Besides, Audit noticed that projections made during the introduction of new routes often did not materialise further adding to the shortfall. Some corrective actions to improve route economics had been made recently, although delayed. In the meanwhile AIL lost significant market share. This was likely to adversely impact its turnaround efforts.

In its day to day operations, the Company failed to rationalise staff costs and harmonise the HR policies of erstwhile IA and AI as recommended by the Justice Dharmadhikari Committee. The Company had excess standard force required for its operation as per its own estimation. Even then, the Company hired a large contingent of consultants, casual workers, temporary and outsourced employees which added to staff costs. The crew (cockpit and cabin crew) were also not optimally utilised leading to inefficiencies. The intended IT integration could not be achieved fully with two IT systems, the Central Planning and Control System (CPCS) and the Flight Management System (FMS) remaining partially complete even after five years. Hence the envisaged benefits could not be fully derived. Delays were also noticed in operationalising the MRO and GH subsidiaries.

Though the Company was able to achieve its operational targets set in TAP with respect to PLF and yield, it failed to meet the on-time performance (OTP) targets. The OTP improved in 2013-14 to 78 *percent* from 2012-13, but declined sharply in 2014-15 to 72 *percent*, before improving to 78 *percent* in 2015-16. Audit analysis indicated that the percentage of delays caused due to factors partially controllable by AIL in case of domestic sector (Delhi and Mumbai airports) and international sector increased in 2015-16 as compared to 2014-15. Crew related and aircraft related problems emerged as the major contributing factors for low OTP. This resulted in significant re-scheduling and cancellation of flights which inconvenienced passengers and affected image of the airline. The cancellation of flights at Mumbai and Delhi airports, however, decreased in 2015-16 as compared to 2014-15. The rescheduling of flights increased to 17.34 *percent* in 2015-16 as compared to 13.73 *percent* in previous year. The passenger market share of Air India also decreased from 17.9 *percent* in 2014-15 to 15.9 *percent* in 2015-16.

While the Government had committed ₹42182 crore of equity to the airline and ₹22280 crore has been released by March 2016, it had also enhanced the bilateral entitlements of foreign carriers which restricted the competitive ability of AIL, particularly in the face of large scale sixth degree traffic carried by the foreign carriers to and from India. AIL, on the other hand, failed to utilise its fifth freedom rights and compete effectively.

Audit also noticed that the quantum of equity committed by GoI needs to be adjusted in view of the reduced requirement of AIL, considering the premature repayment of Government guaranteed aircraft loan for five B-777-200 LR aircraft by AIL out of the sales proceeds of these aircraft. As the actual interest rates on non-convertible debentures were lower than anticipated, the equity committed in this regard also needed to be adjusted.

Recommendations

(i) **As a result of the considerable erosion of the benefits of financial restructuring due to high volume of short term loans of AIL, the value of which was nearly four times the cash credit limits laid down in the Turnaround Plan–Financial Restructuring Plan (TAP-FRP), the Company and the Ministry may need to reassess the requirement of fund envisaged in the Plan.**

(ii) **Monetisation of assets which failed to take off in the four years ended 31 March 2016 should be fast tracked. Efforts should be taken to ensure that assets identified for monetisation had proper title deeds and the lease agreements did not contain any limiting provision/conditions impacting their monetisation.**

(iii) **Considering the acute shortage of narrow body aircraft faced by the Company, the process of leasing additional A-320 aircraft should be expedited. All efforts should be made to eliminate abnormal grounding of aircraft. Considering the significant expenditure of the airline on lease rent (for leased aircraft) and finance cost (for owned aircraft) for the period the aircraft were grounded, effective action should be taken for optimising the stock of spares, parts, components and serviceable engines required for repair and maintenance of the acquired fleet. Utilisation of aircraft, particularly the narrow body aircraft should also be improved to meet targets prescribed in TAP and contribute to higher revenues for the airline.**

(iv) **The Company should focus on recovery of total cost of operation rather than variable cost alone for an effective turnaround for the airline. Rationalisation of routes should be continued. Concerted efforts should be made for maintaining and improving the market share of the airline, particularly on routes where the presence of AIL has been traditionally strong.**

(v) **The recommendations of Justice Dharmadhikari Committee on harmonisation and rationalisation of staff costs should be implemented by AIL in letter and spirit. The excess manpower compared to the standard force fixed by the Company needed to be rationalised and the practice of hiring of temporary manpower should be reviewed. The crew should be optimally utilised and their availability should be aligned to the station of their operation to address crew shortages leading to poor On Time Performance (OTP), re-scheduling, cancellation of flights. AIL should also rationalise costs on Staff on Duty (SOD) travel, related allowances and hotel expenses in positioning the staff.**

(vi) The IT application Central Planning and Control System (CPCS), should be fully implemented expeditiously. Efforts should be made for development and retention of trained manpower for operating these sophisticated IT systems.

(vii) Systems should be put in place for better coordination of crew and more efficient maintenance of aircraft so that delays, re-scheduling and cancellation of flights were minimised.

(viii) Since equity commitment of GoI is specific to identified purposes, equity releases of Government of India (GoI) should be adjusted to match the reduction of loans of AIL guaranteed by GoI and the lower interest liability on non-convertible debentures issued by AIL.

(ix) Considering the significant equity funds committed by GoI to AIL, a decision regarding grant of additional bilateral rights to foreign carriers should take into consideration its impact on AIL, as recommended by the Public Accounts Committee of Parliament in its 93rd report (2013-14).

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Dated:	**Deputy Comptroller and Auditor General and Chairman, Audit Board**

Countersigned

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